

SAN DIEGO COUNTY TREASURER



TREASURY OVERSIGHT COMMITTEE MEETING

October 21, 2009

Economic Outlook Presentation

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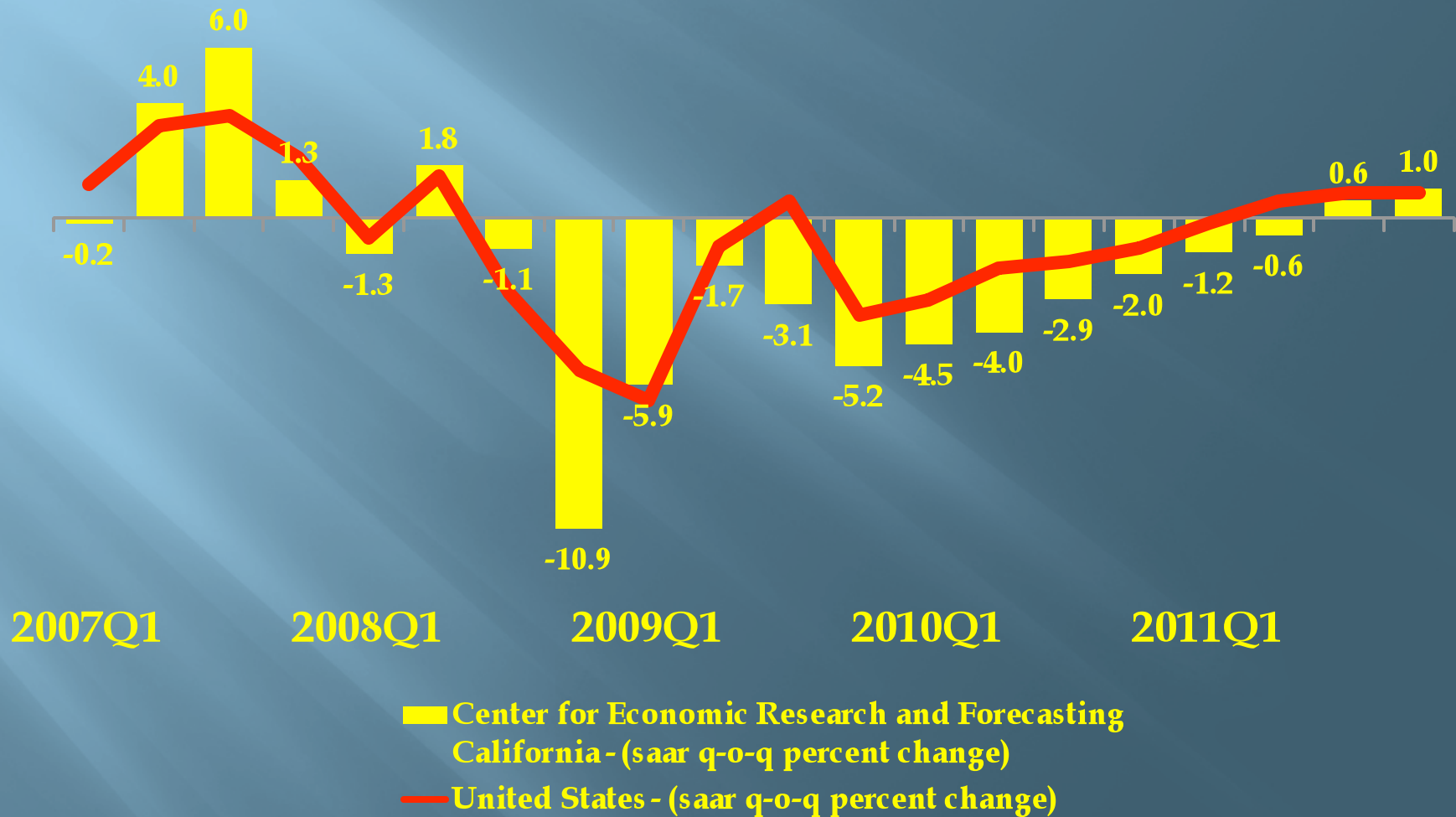
Presentation Overview

- State Economic Highlights
- San Diego Key Governmental Revenues
- Housing and the Foreclosure Crisis
- State Budget
- California Municipal Finance

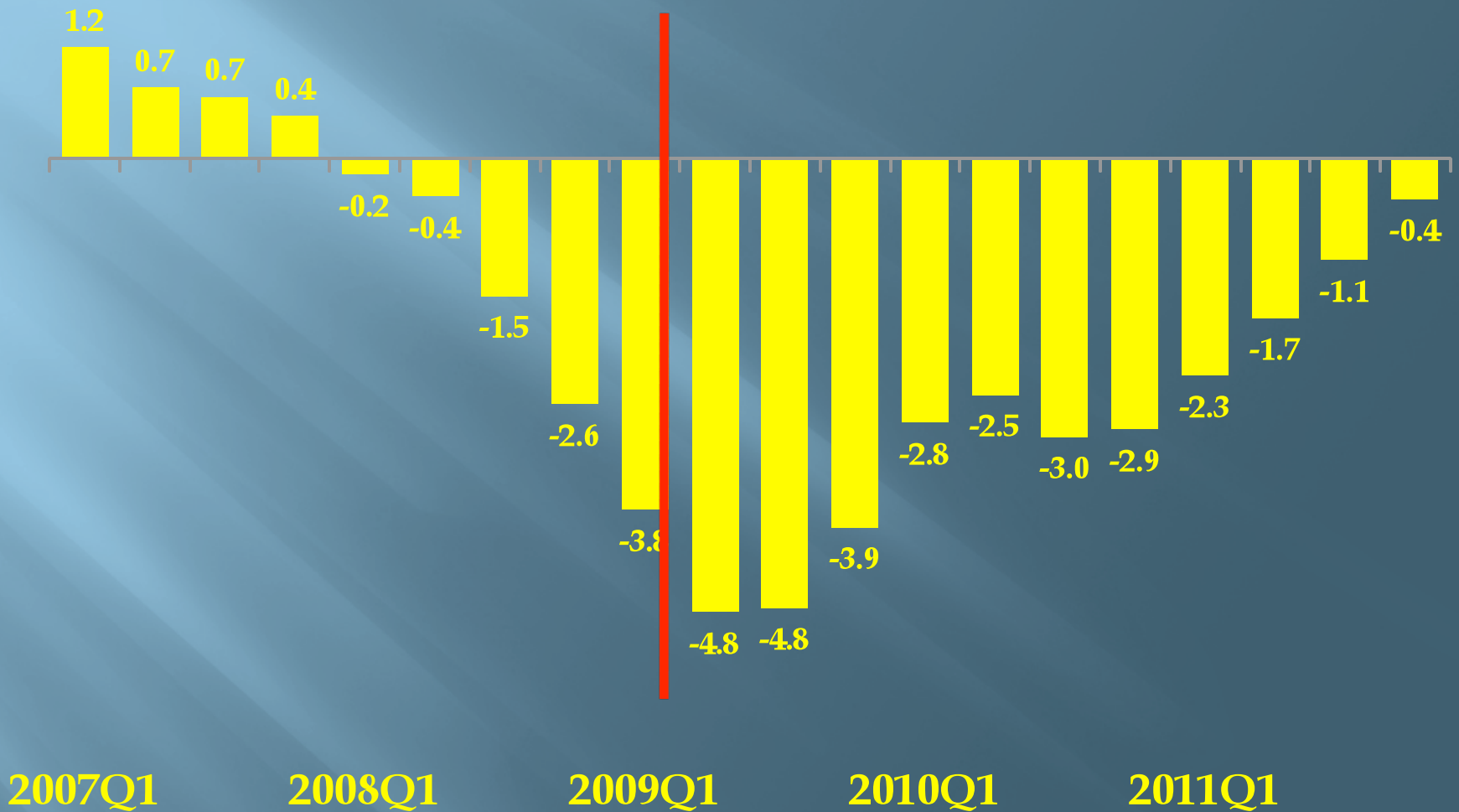
California Economic Outlook

- Recovery is moving forward very slowly
- Real Positive GDP Growth in 2011
- Retail Sales Growth Over 2007 Levels in 2011
- Graphs from Center for Economic Research and Forecasting

Real Gross Domestic Product Growth

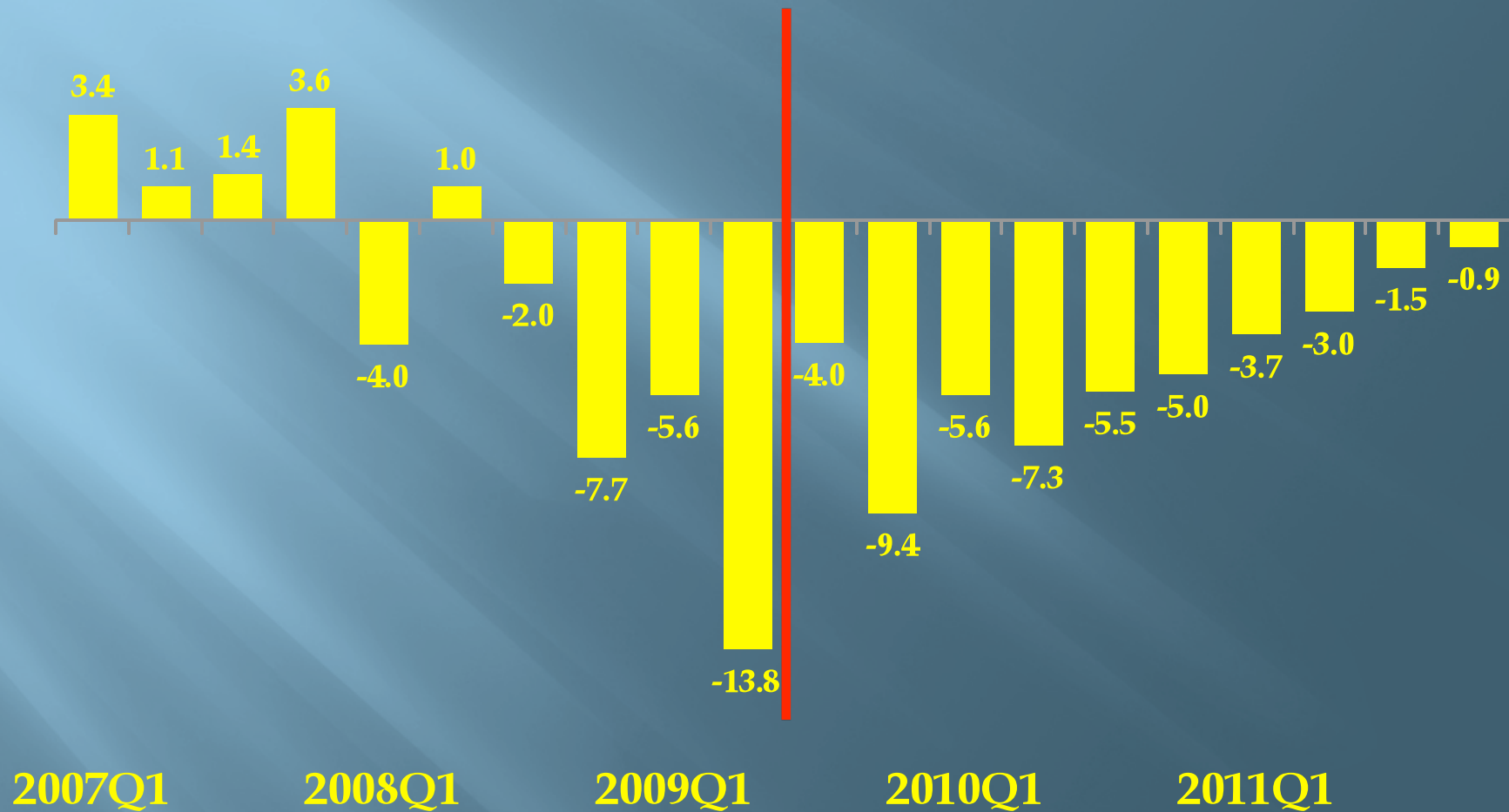


Non-Farm Job Growth



■ Center for Economic Research and Forecasting
California - (y-o-y percent change)

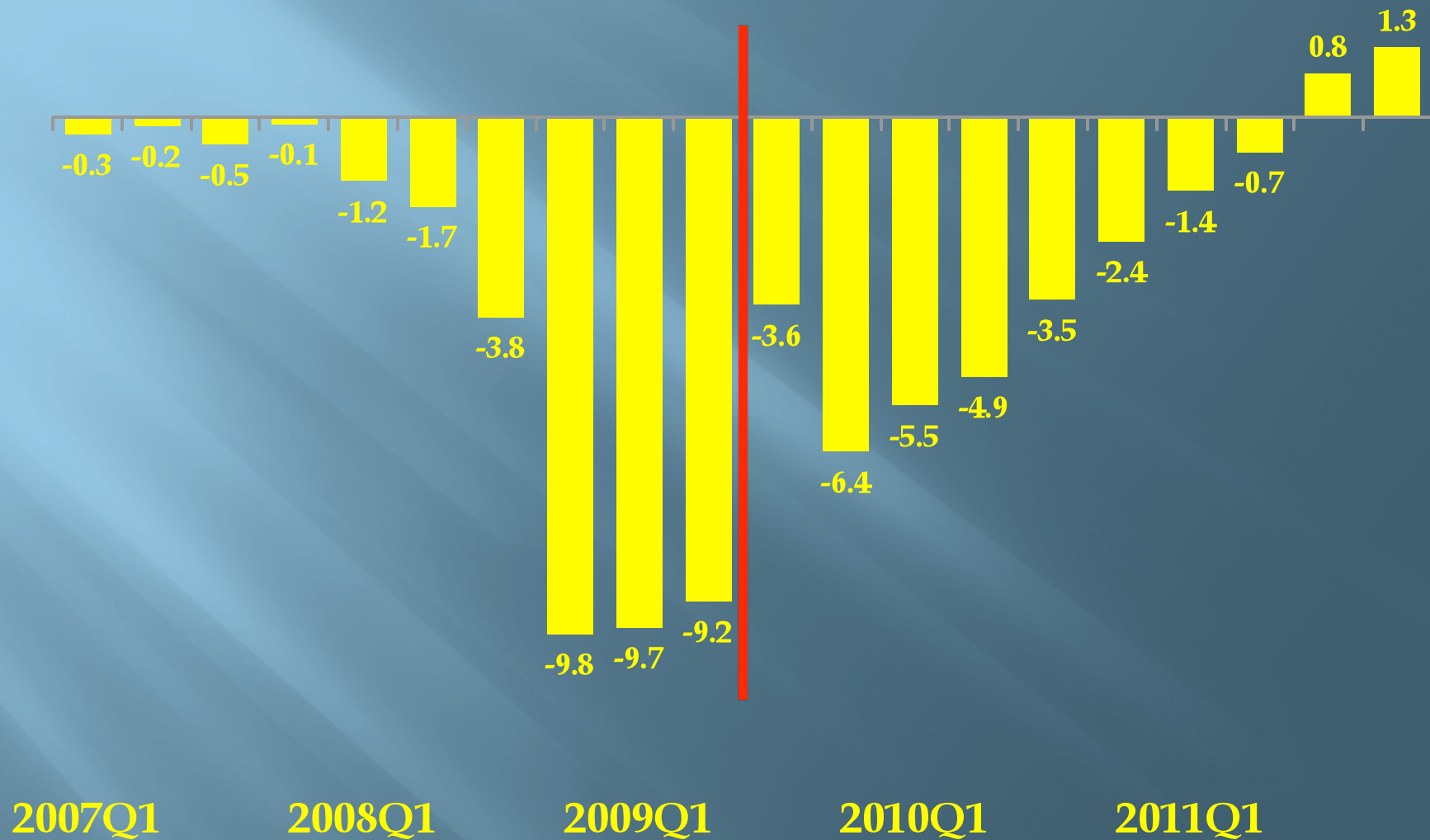
Real Wage & Salary Income Growth



■ Center for Economic Research and Forecasting
California - (saar q-o-q percent change)

Prepared by Piper Jaffray

Real Retail Sales Growth



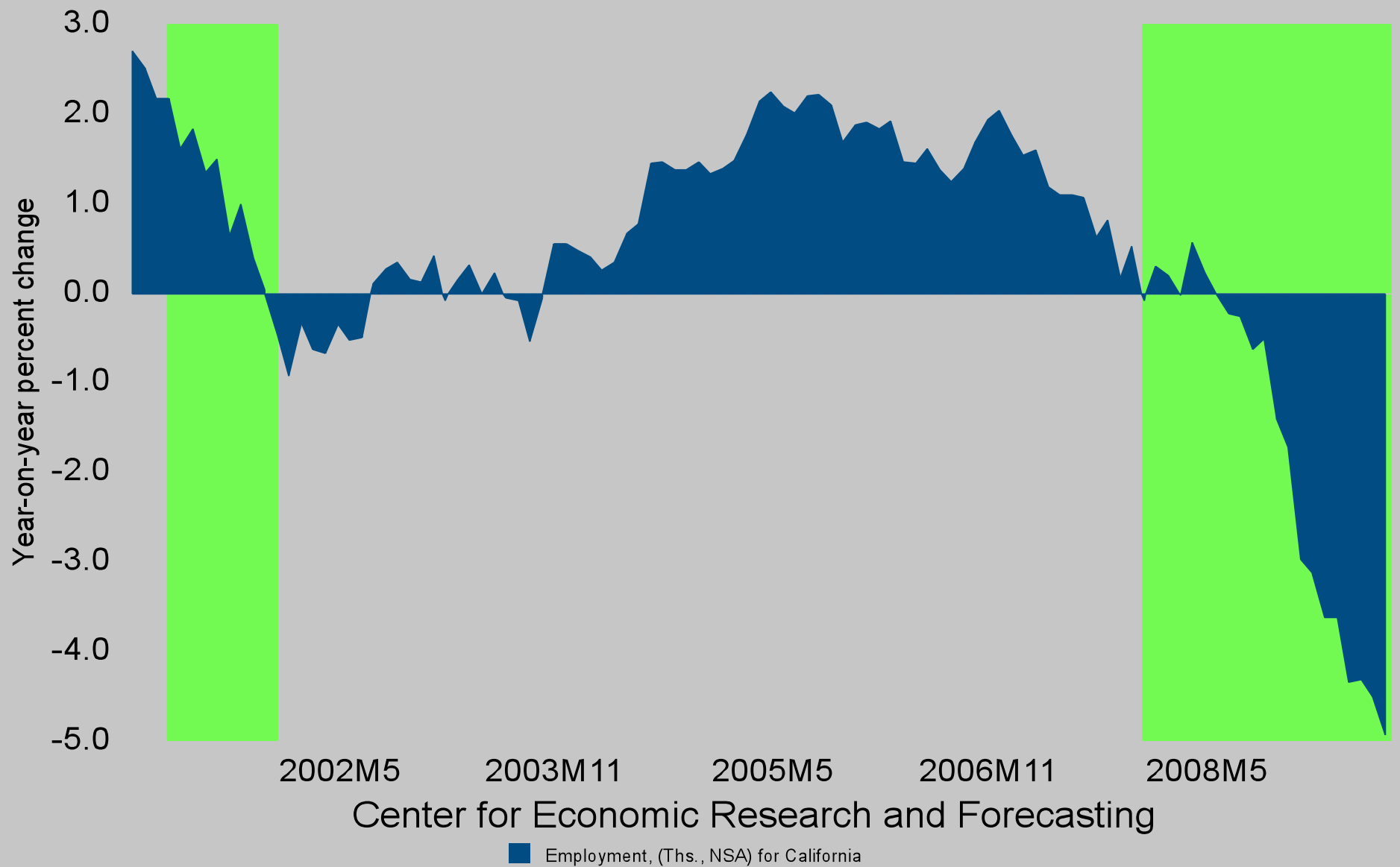
■ Center for Economic Research and Forecasting
California - (y-o-y percent change)

Prepared by Piper Jaffray

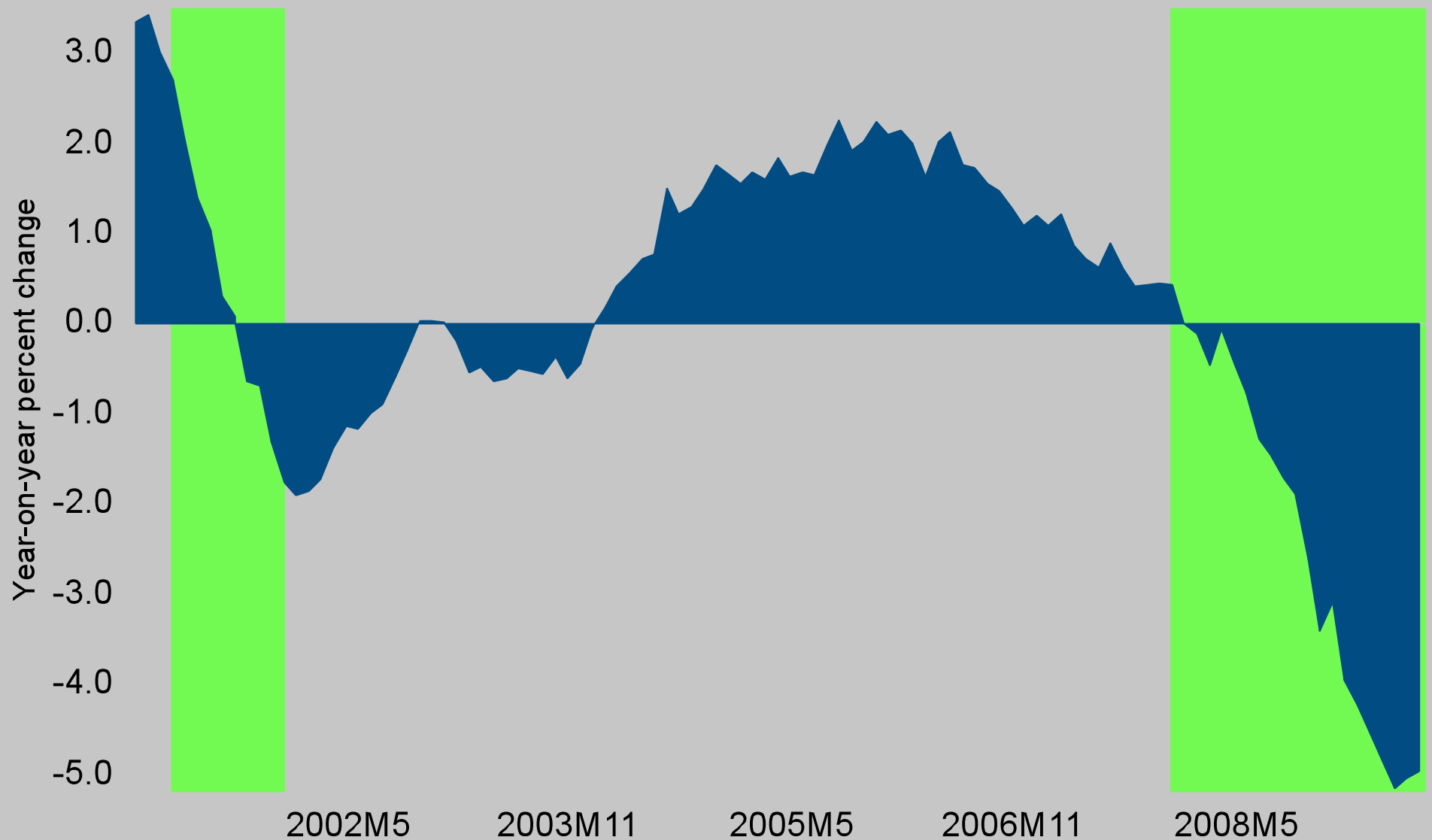
State Of California Historic Employment

- Private Sector Employment Strongly Impacted
- Government Employment has Decreased
- State Government Employment Not As Impacted as Local Government

Employment, CA

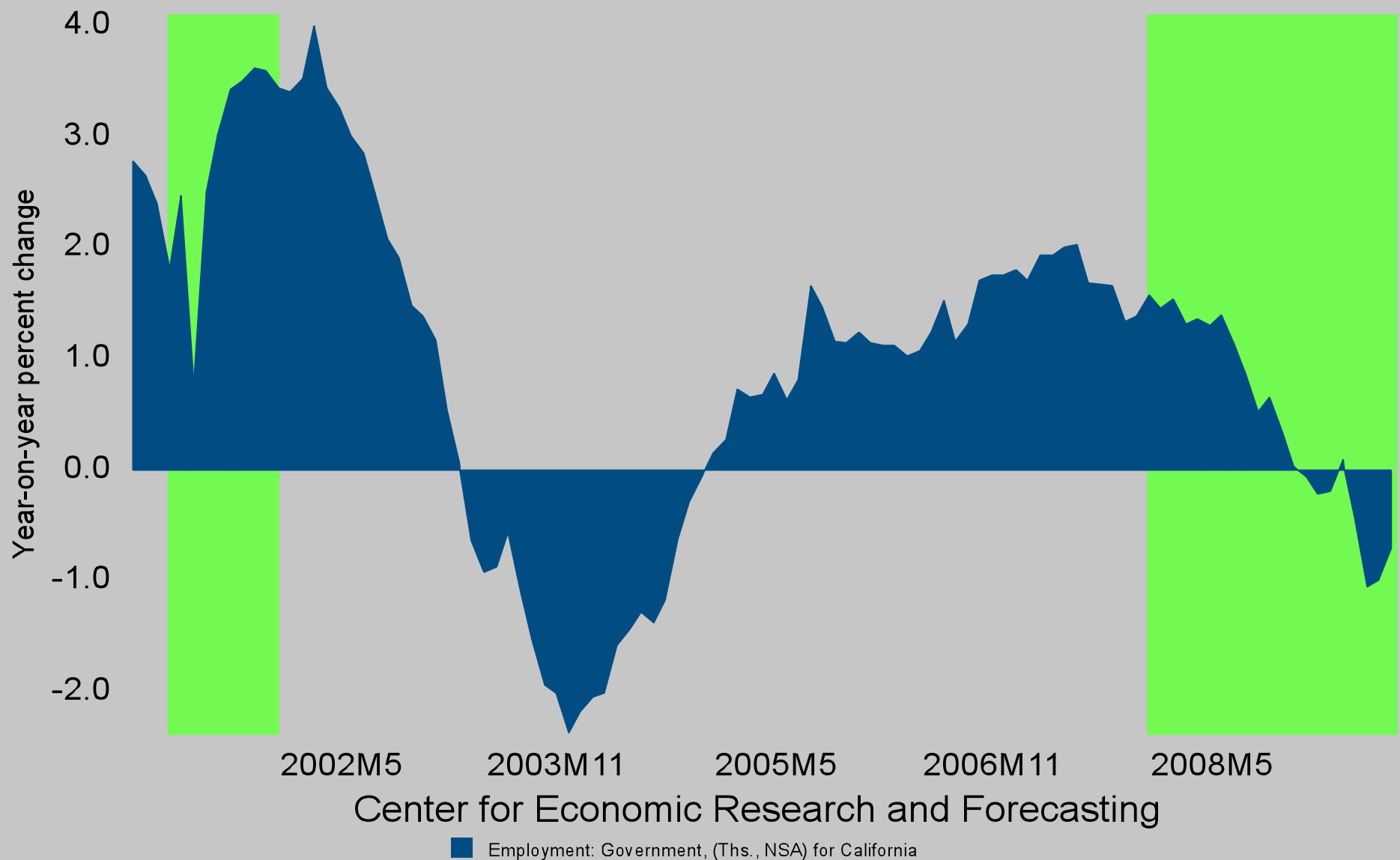


Employment: Total Nonfarm, CA

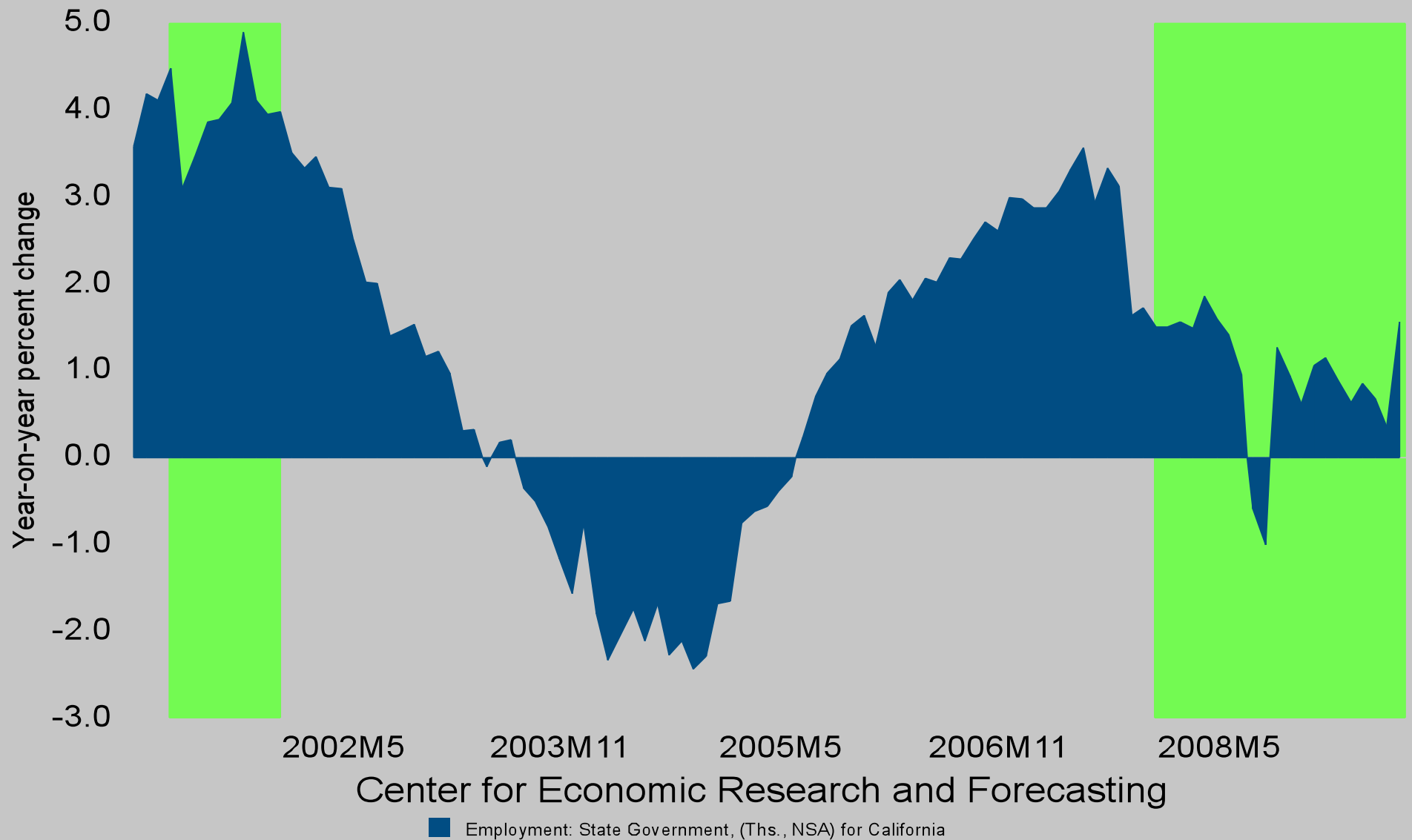


Center for Economic Research and Forecasting

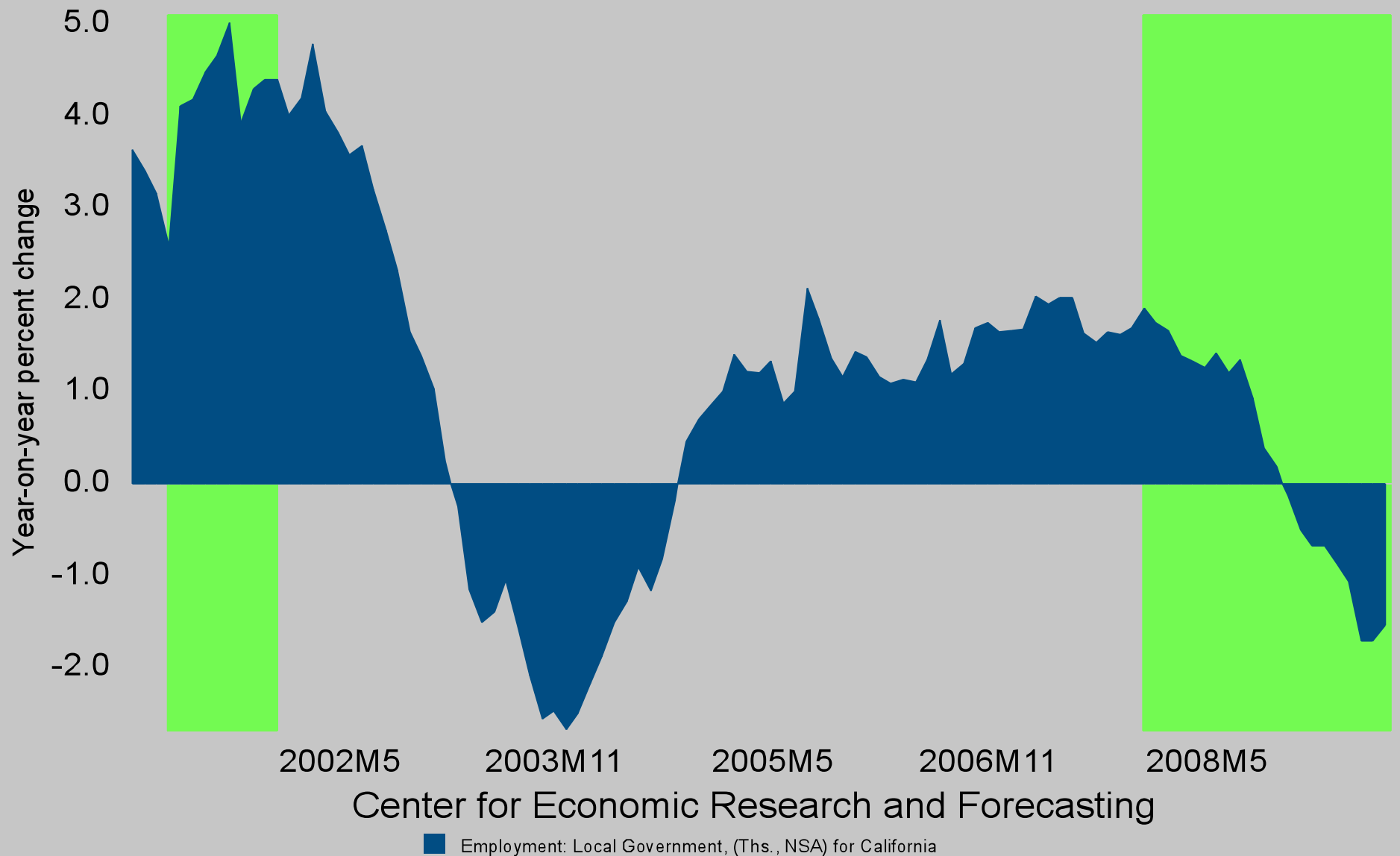
Employment: Government, CA



Employment: State Government, CA



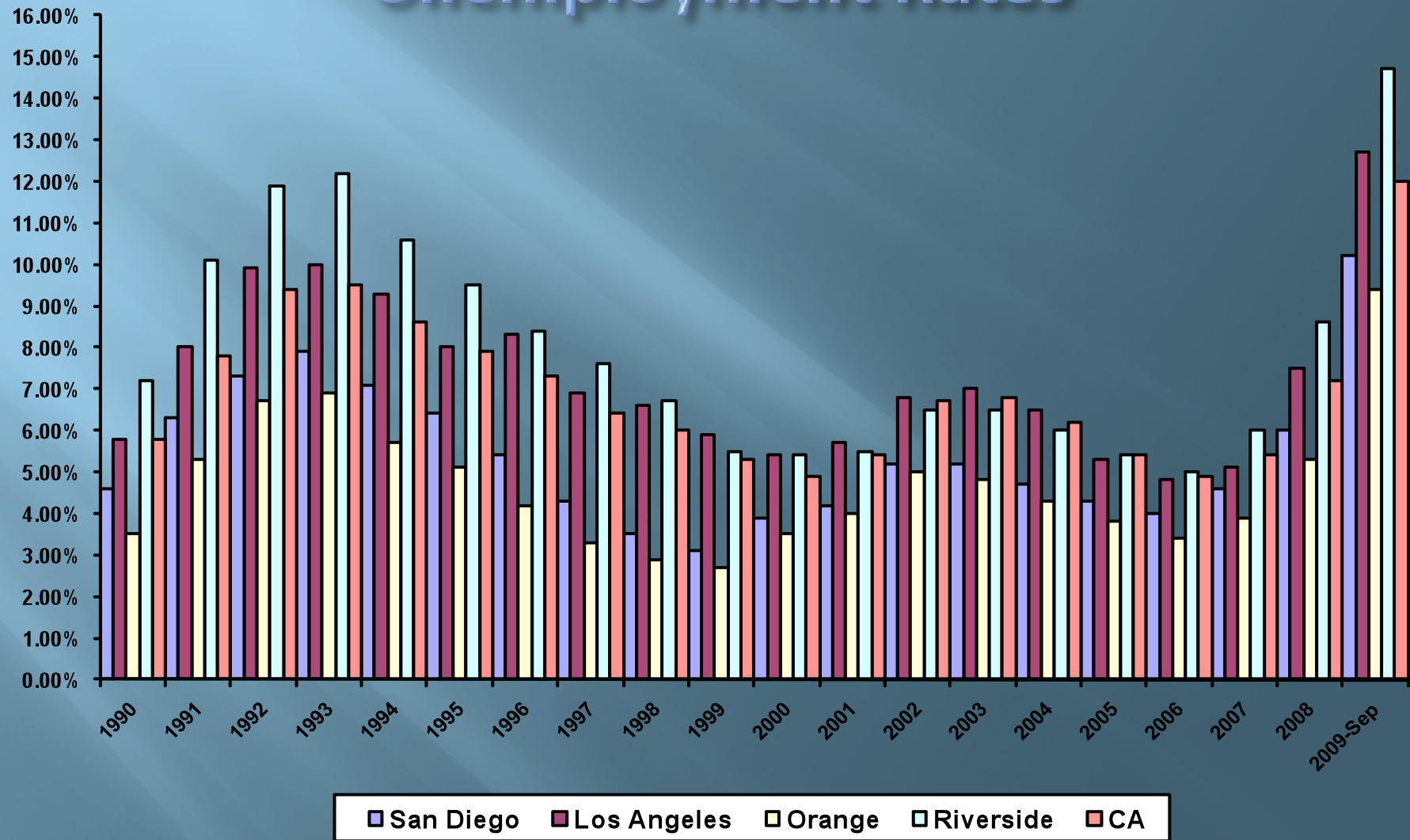
Employment: Local Government, CA



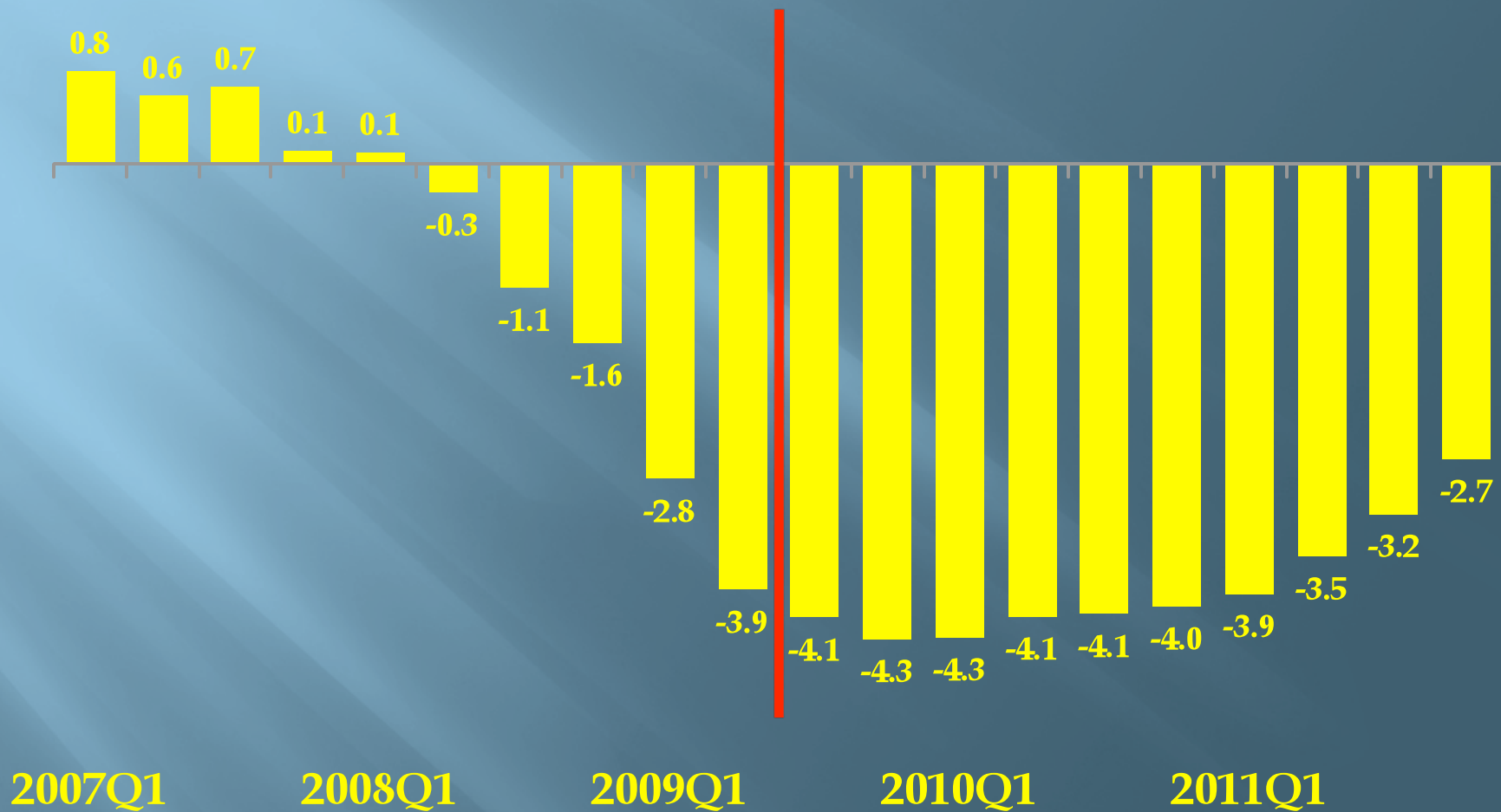
Foreclosure Crisis

- Foreclosure sales typically 28% below “Market”
- First wave of foreclosures (speculators, fraud, clearly cannot afford) is running its course
- First wave continues as unemployment continues
- Second wave – Strategic Foreclosures, represents the great unknown

Southern California Counties Unemployment Rates



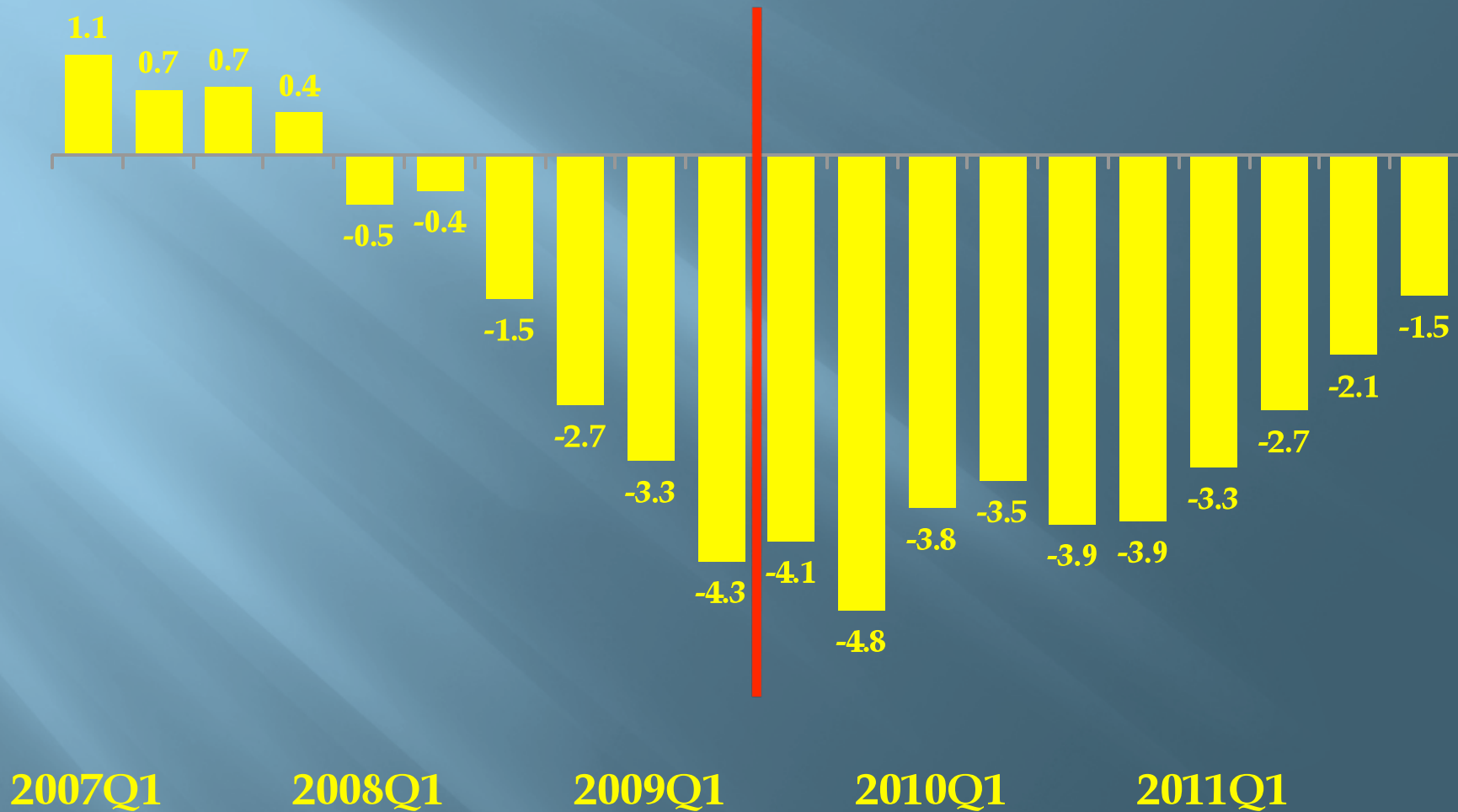
Non-Farm Job Growth



■ Center for Economic Research and Forecasting
San Diego County- (y-o-y percent change)

Prepared by Piper Jaffray

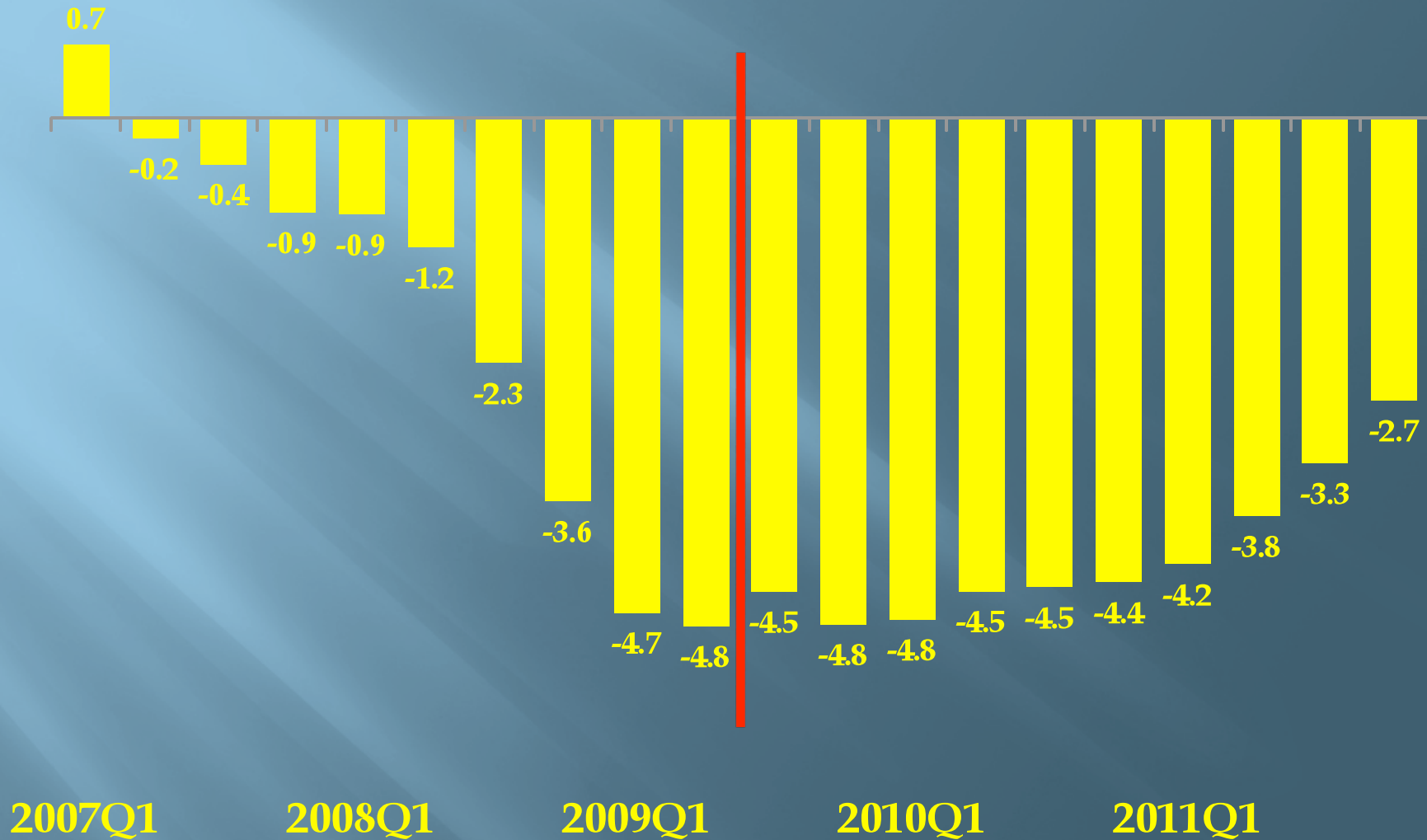
Non-Farm Job Growth



■ Center for Economic Research and Forecasting
Los Angeles County - (y-o-y percent change)

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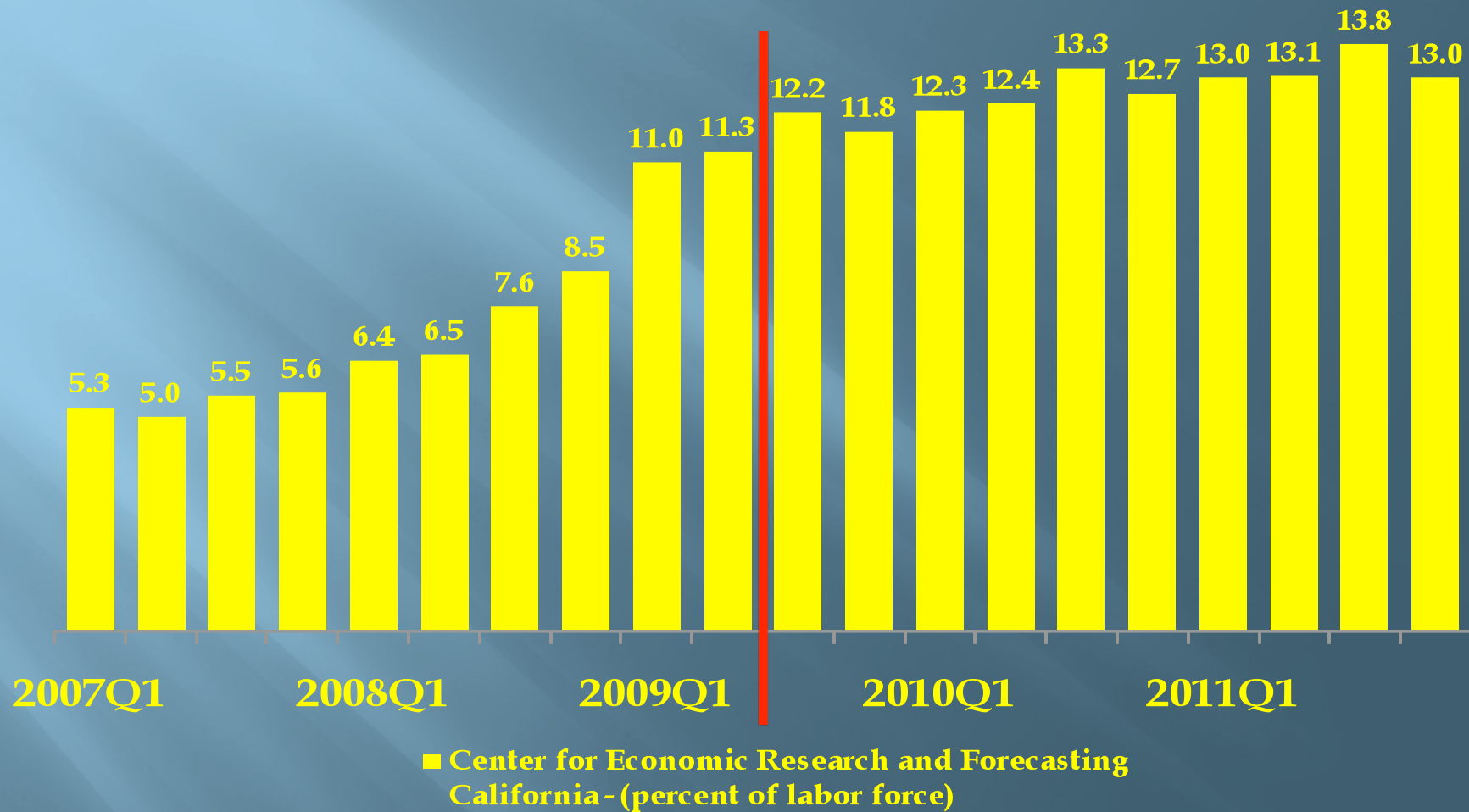
Non-Farm Job Growth



Center for Economic Research and Forecasting
Orange County - (y-o-y percent change)

Prepared by Piper Jaffray

Unemployment Rate (NSA)



Strategic Foreclosures

- Strategic Foreclosures – Foreclosures when the family can afford the mortgage but the negative equity and cost over renting (or buying another property) make economic “sense” to default.
- No precedent in US history with up to 40% of California homes “under water”
- Estimated that 26% of 2009 defaults are Strategic (national)
- California, Nevada & Arizona three primary states for negative equity
- Much greater issue in Non-recourse states such as California

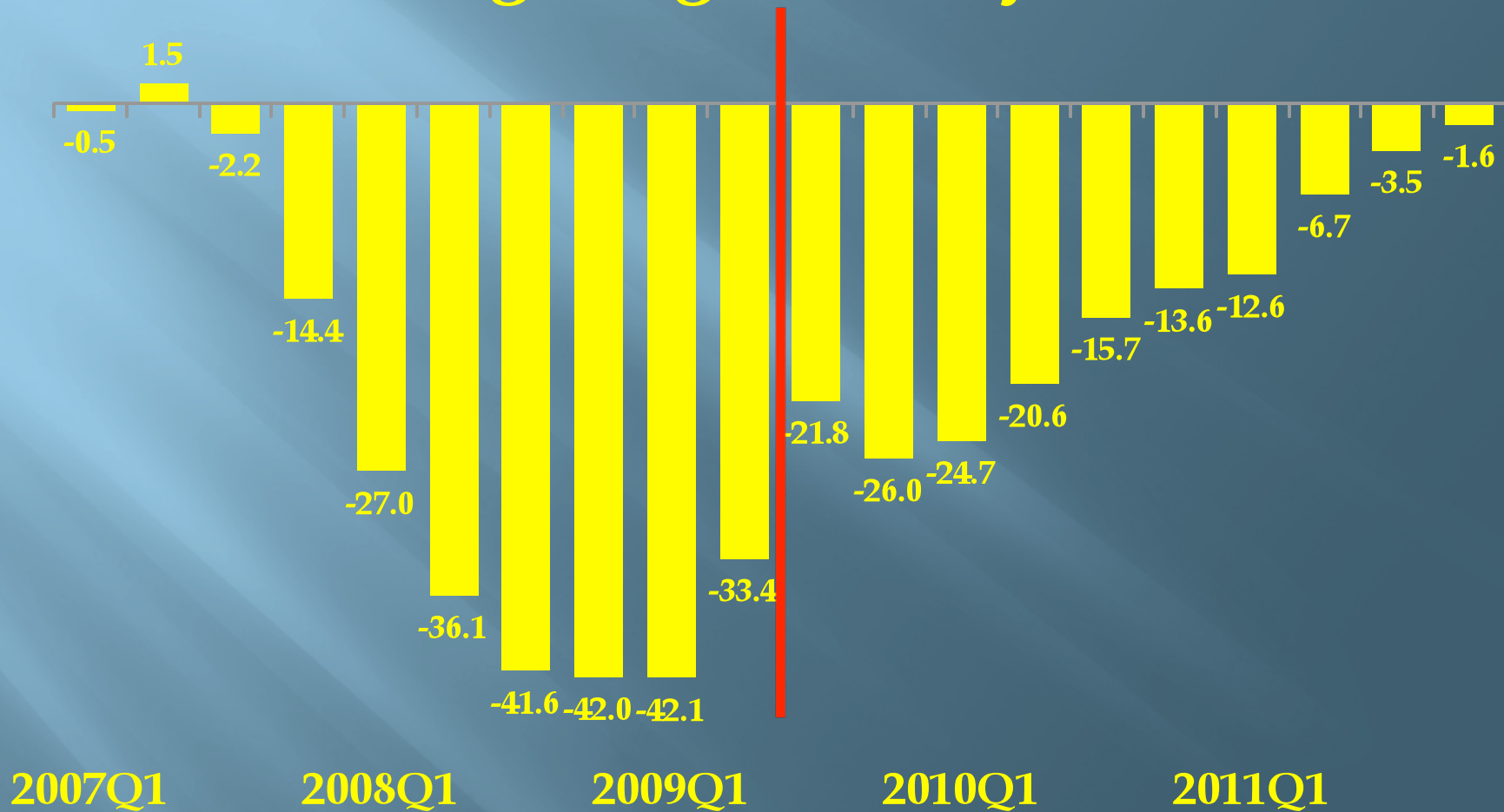
What encourages a Strategic Default?

- Level of negative equity
- Local foreclosure activity
- “Morality” erodes from 80% to 50% based on negative equity
- Less commitment to the house (<5 years ownership, children, age)
- Democrat vs. Republican vs. Independent

Strategic Defaults as the Ticking Time Bomb

- As values do not increase, homeowner remorse likely to increase
- Simply knowing others who have undertaken a Strategic Foreclosure
- Government policies have dealt with cashflow, not value loss
- Impact of Strategic Defaults will shape California recovery

Real Median Home Price Growth: Existing Single-family Homes



Center for Economic Research and Forecasting
California - (y-o-y percent change)

Prepared by Piper Jaffray

Southern California Foreclosure Activity

5 year Foreclosure Analysis

County	2005	2006	2007	2008	2009 (FC)*	2009 (NOD)**	2009 (NOT)***
Los Angeles	1,339	1,260	2,036	5,323	18,135	21,336	5,885
Orange	447	320	347	843	3,545	5,821	1,340
Riverside	787	925	938	4,506	15,149	11,123	3,240
San Bernardino	1,229	1,288	1,252	2,988	10,631	8,855	2,404
San Diego	426	413	827	1,754	6,468	7,895	2,406

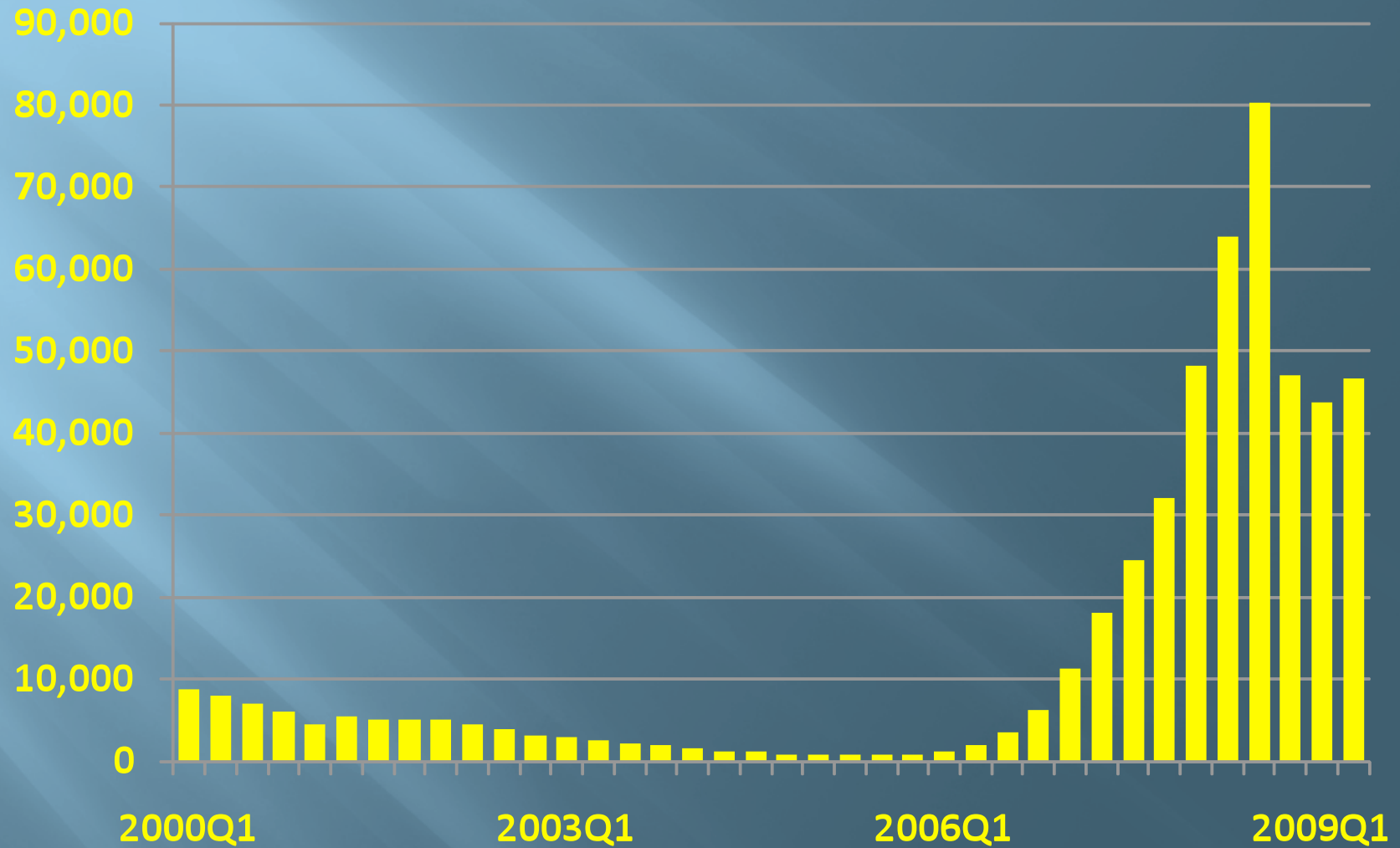
* January 1- October 14, 2009

** Notice of Default

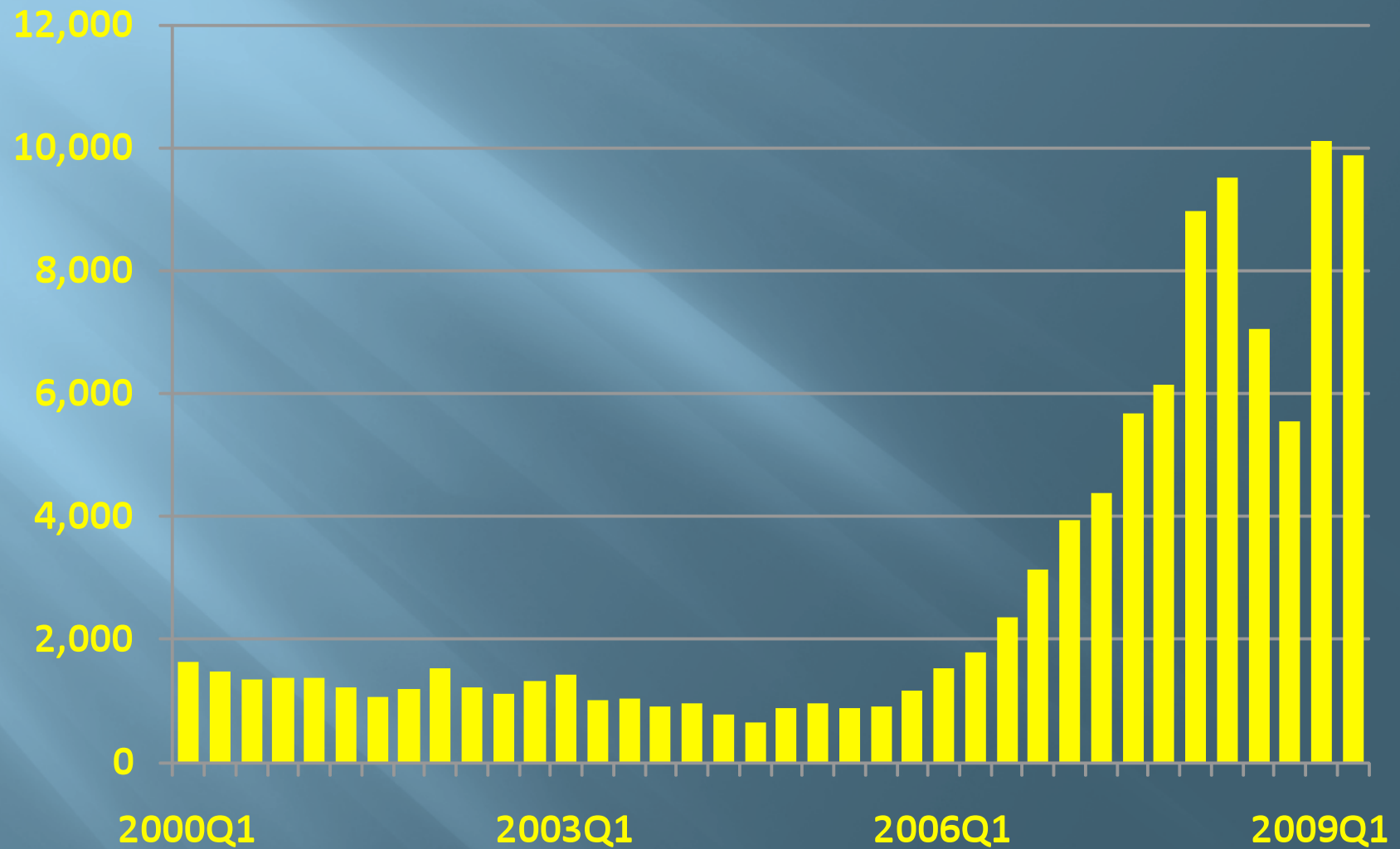
*** Notice of Trustee Sale

Source: DataQuick

CALIFORNIA Foreclosures

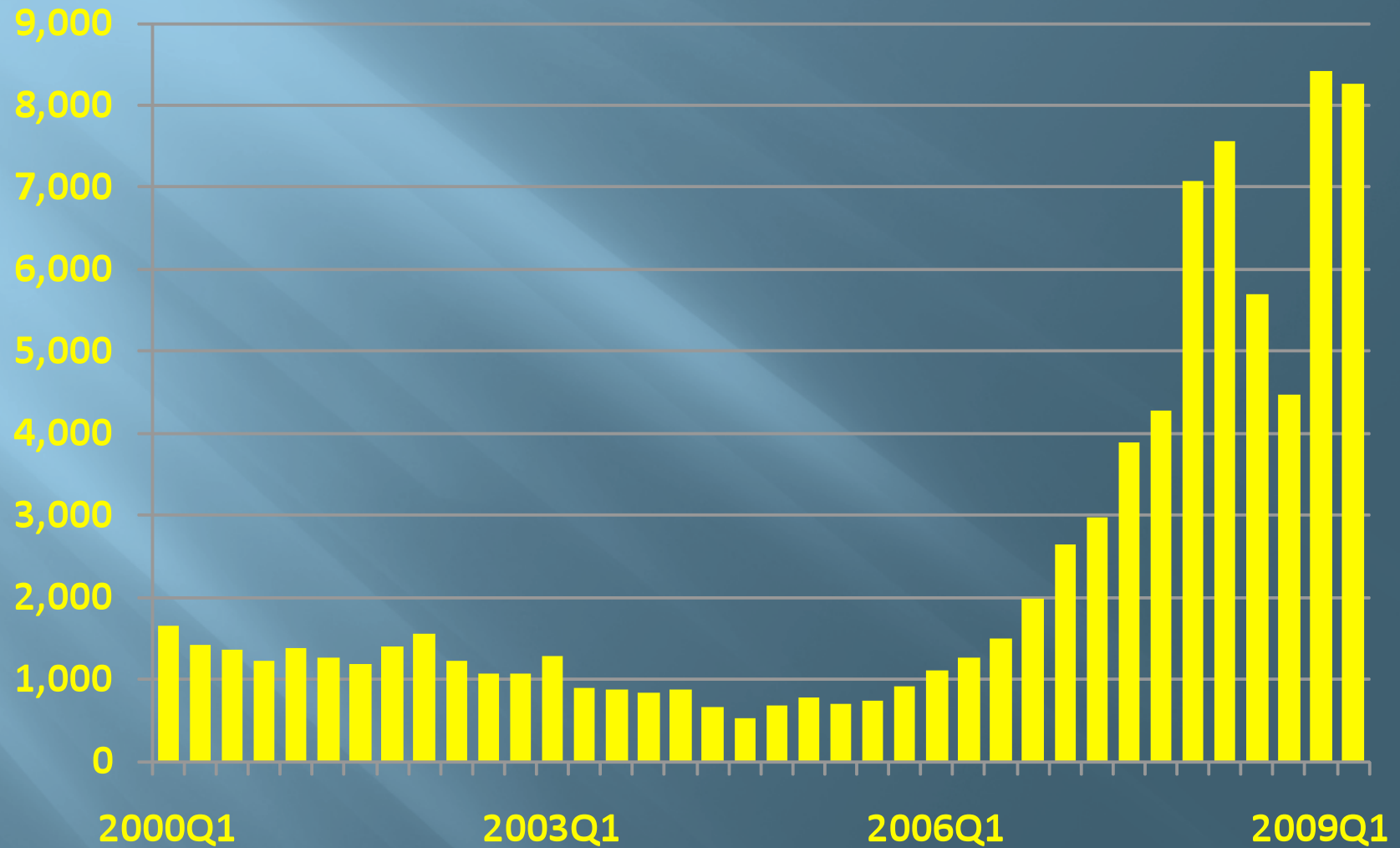


SAN DIEGO County NODs

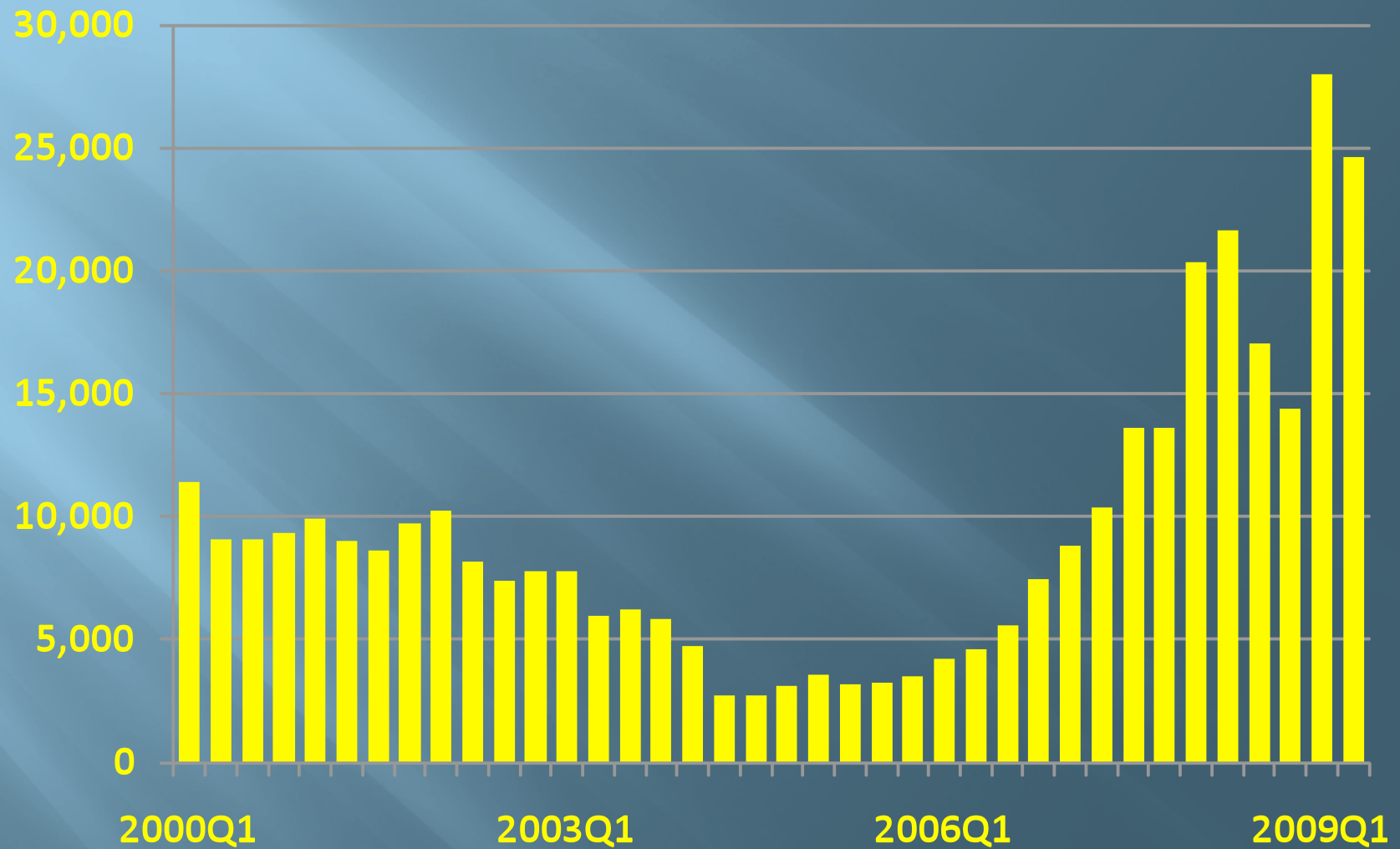


Prepared by Piper Jaffray

ORANGE County NODs

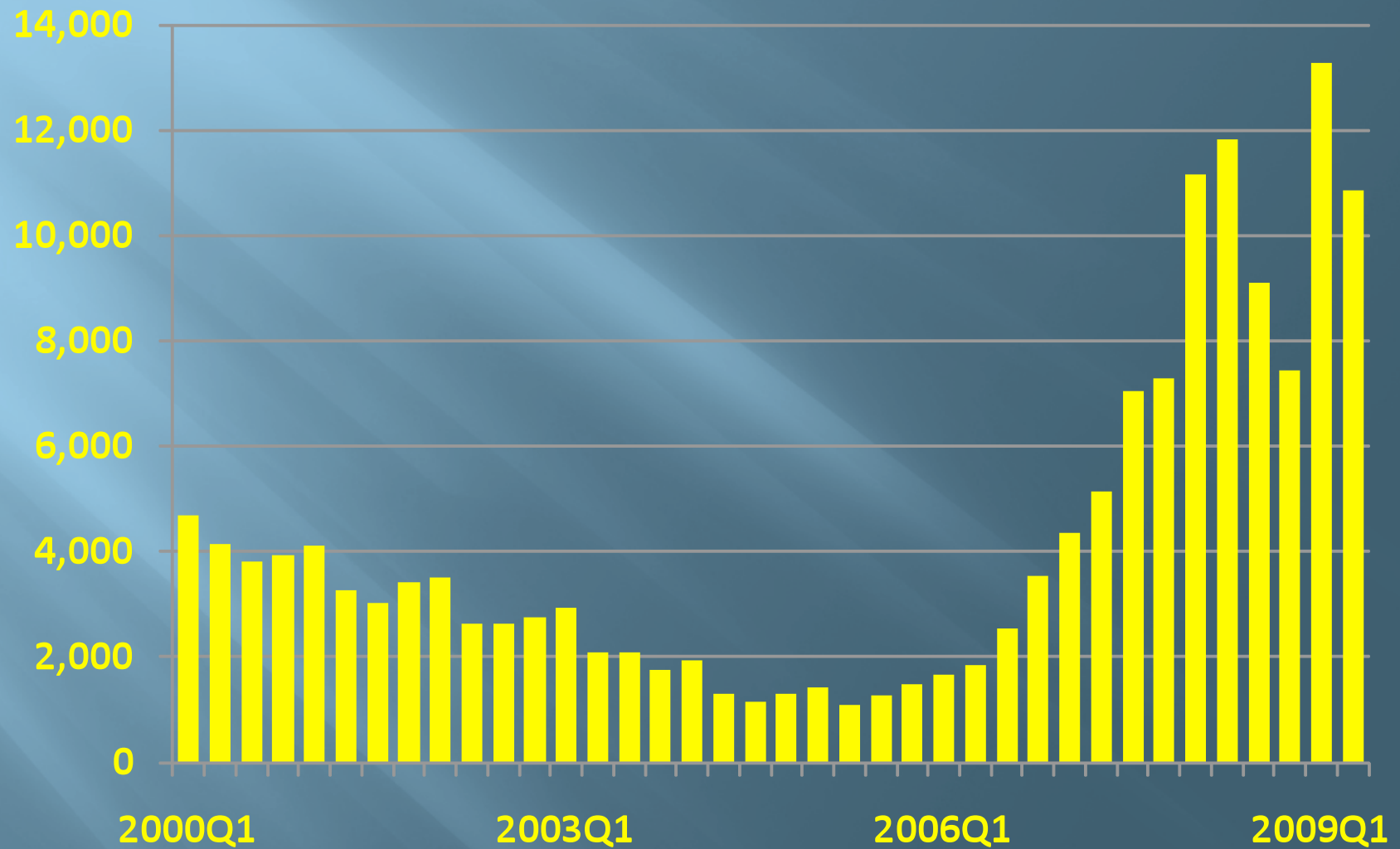


LOS ANGELES County NODs

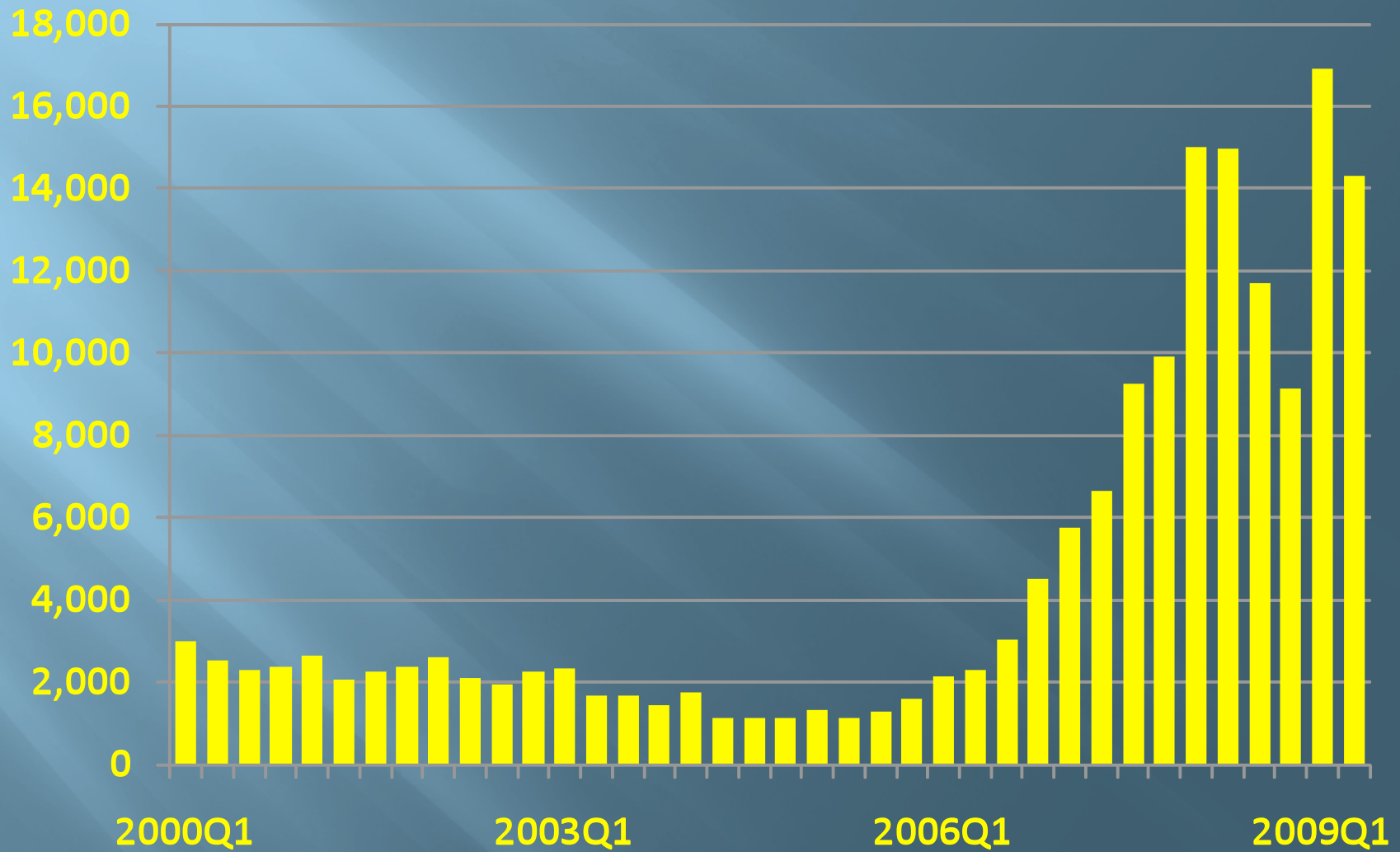


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SAN BERNARDINO County NODs



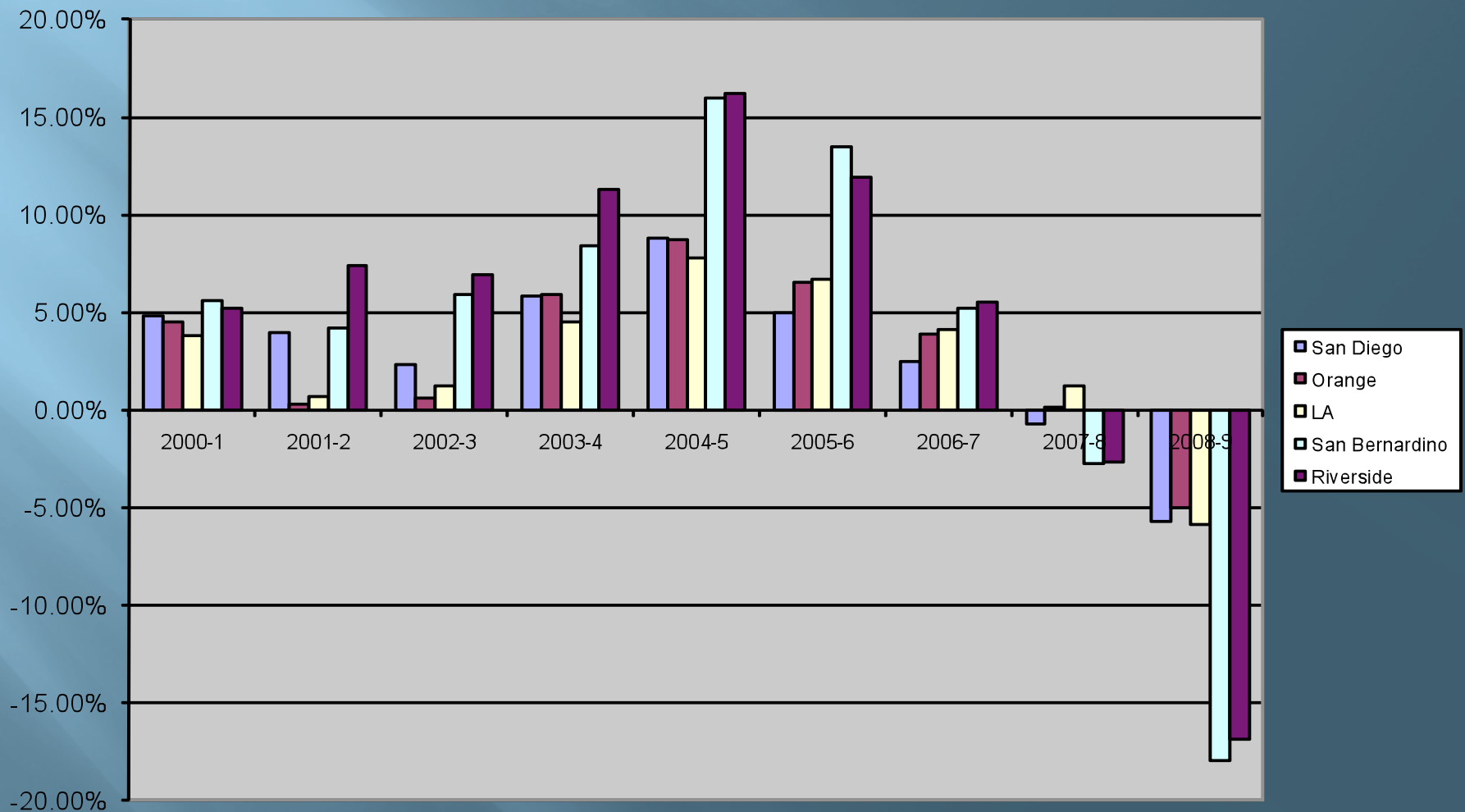
RIVERSIDE County NODs



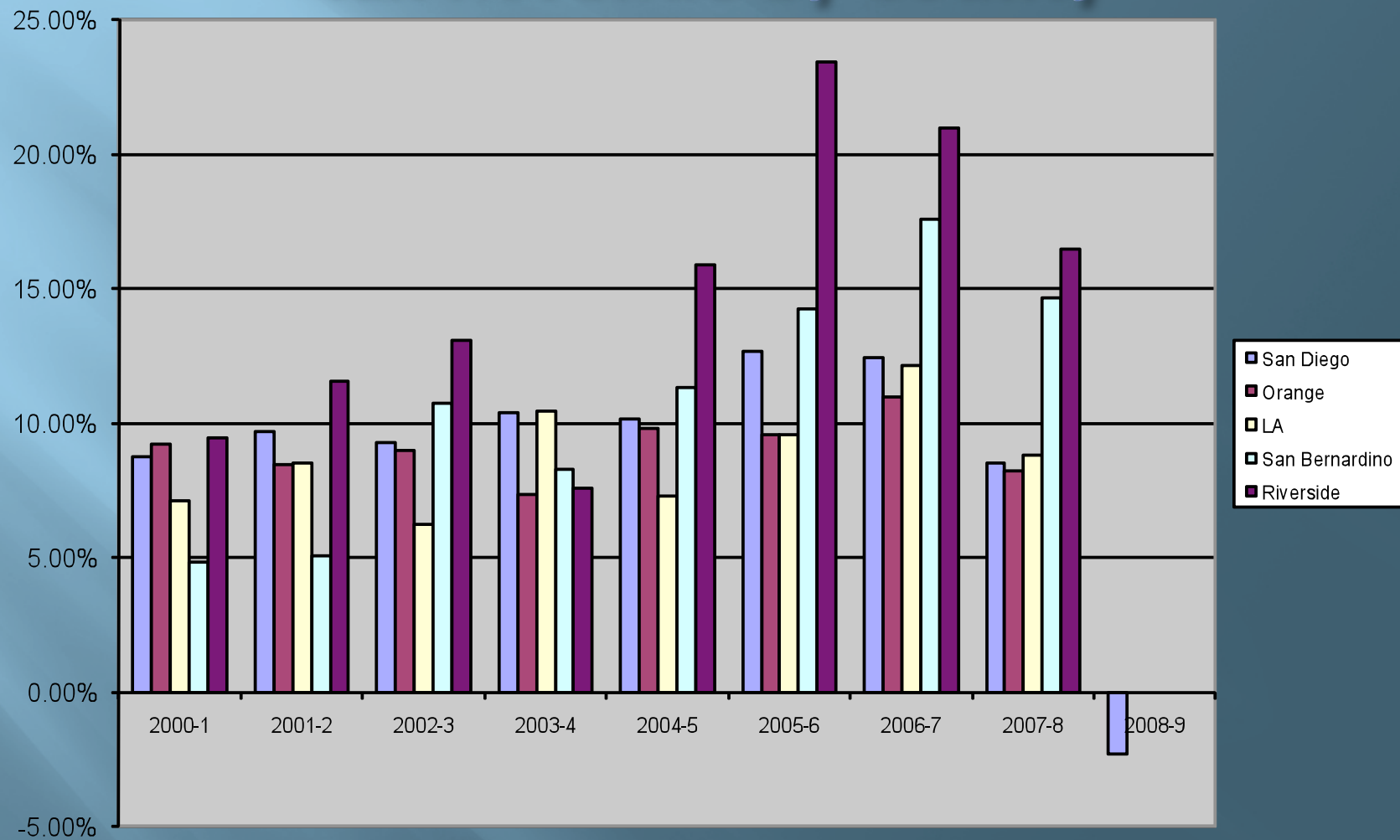
Local Sales and Property Tax Revenues

- Housing Market will continue to drive the Economy
- Sales Tax Revenues not expected to return to growth until late 2010 or 2011
- Property Tax Revenues in San Diego County Decreased 2.3% in 2009-10
 - First decrease in 25 years!
- Forecast for Property Taxes is Continued negatives or nominal growth for two years

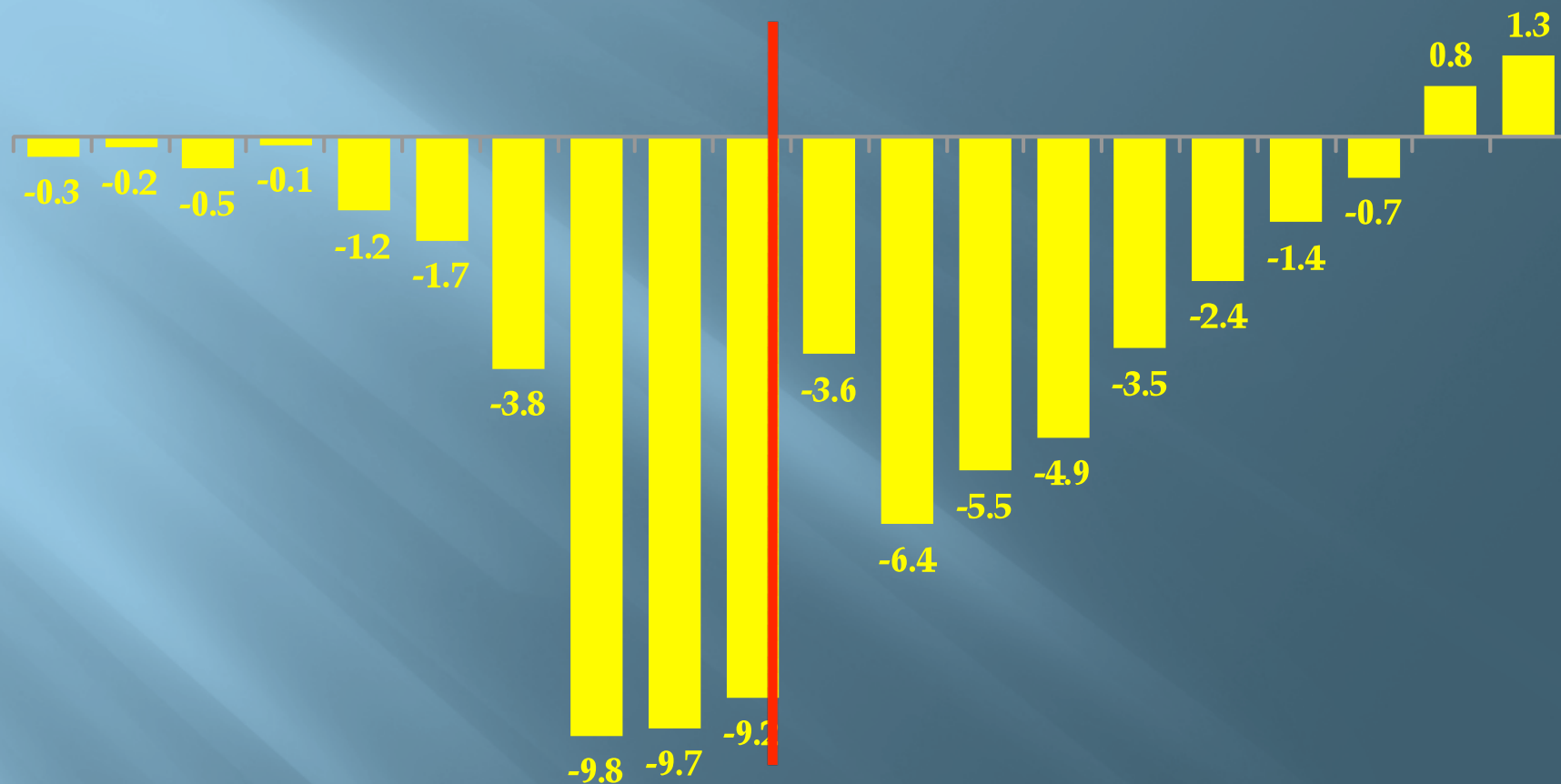
% Change in Sales Tax from Previous Year by County



% Change from Previous Year in Property Tax Revenue by County



Real Retail Sales Growth



2007Q1

2008Q1

2009Q1

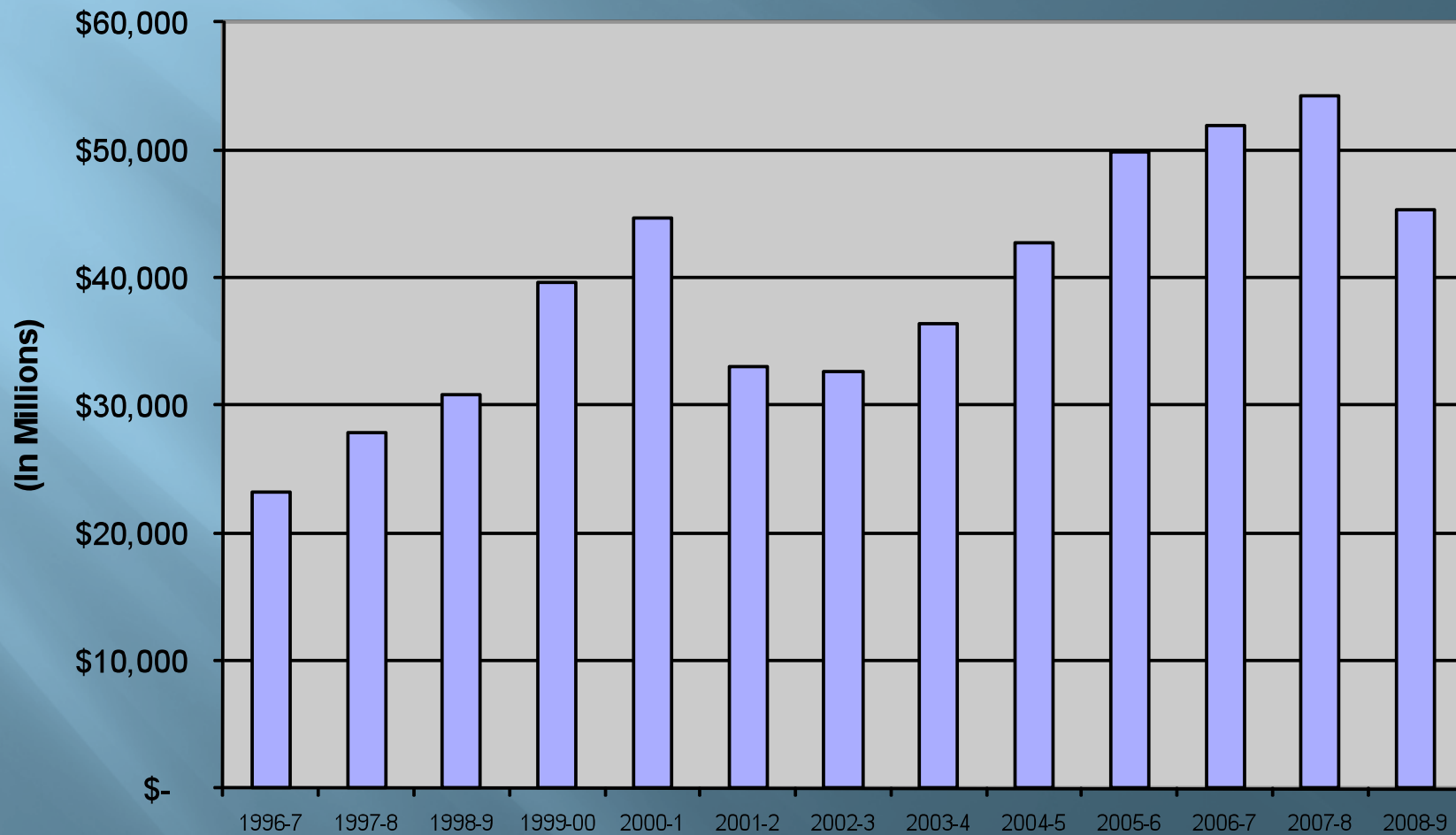
2010Q1

2011Q1

The State Budget

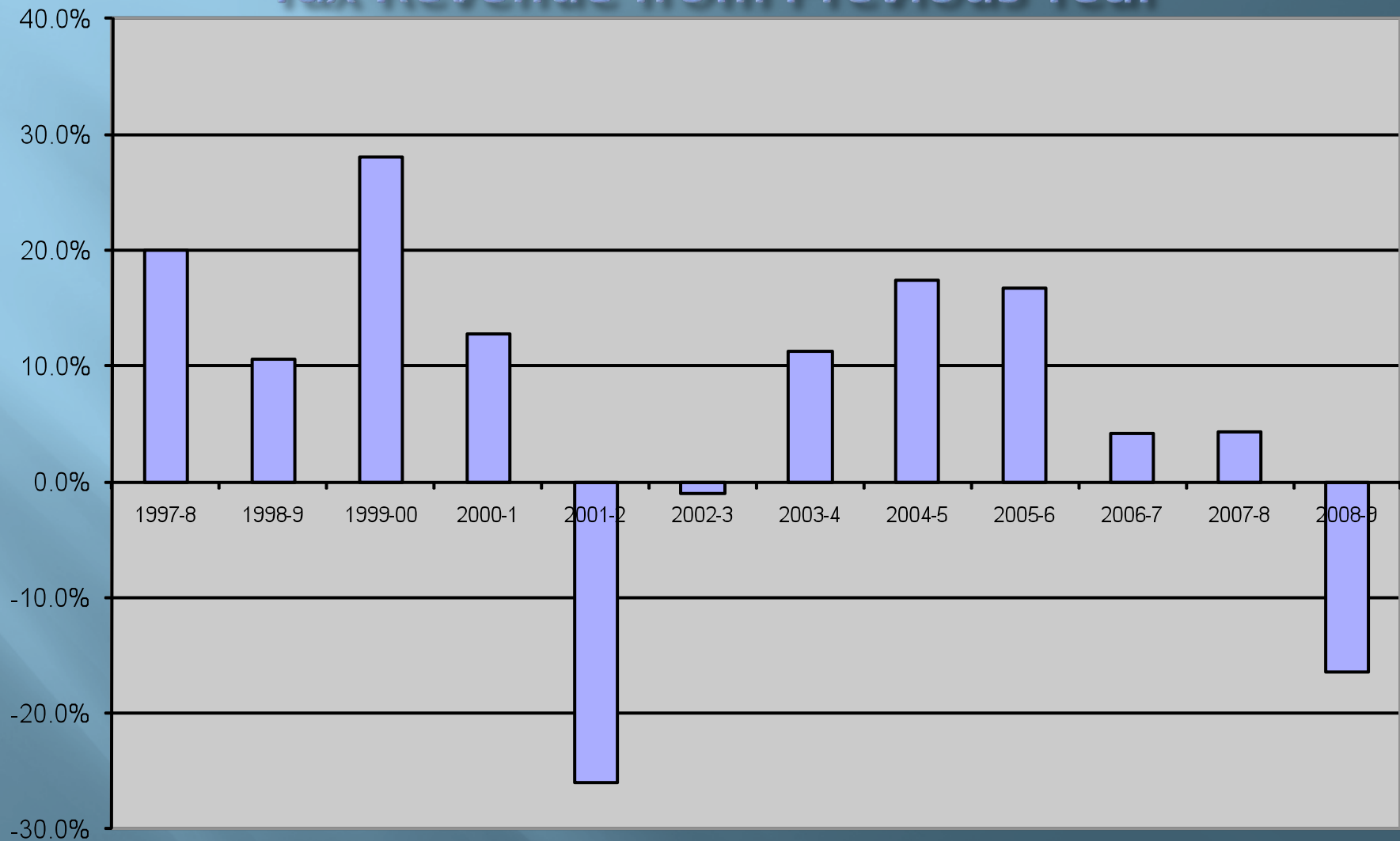
- Revenues are not improving
- Several budgeted revenue sources (Asset Sales, Redevelopment ERAF, etc.) are in severe question
- State bond rating “upgraded” after July-August budget fix

California State Personal Income Tax Revenues



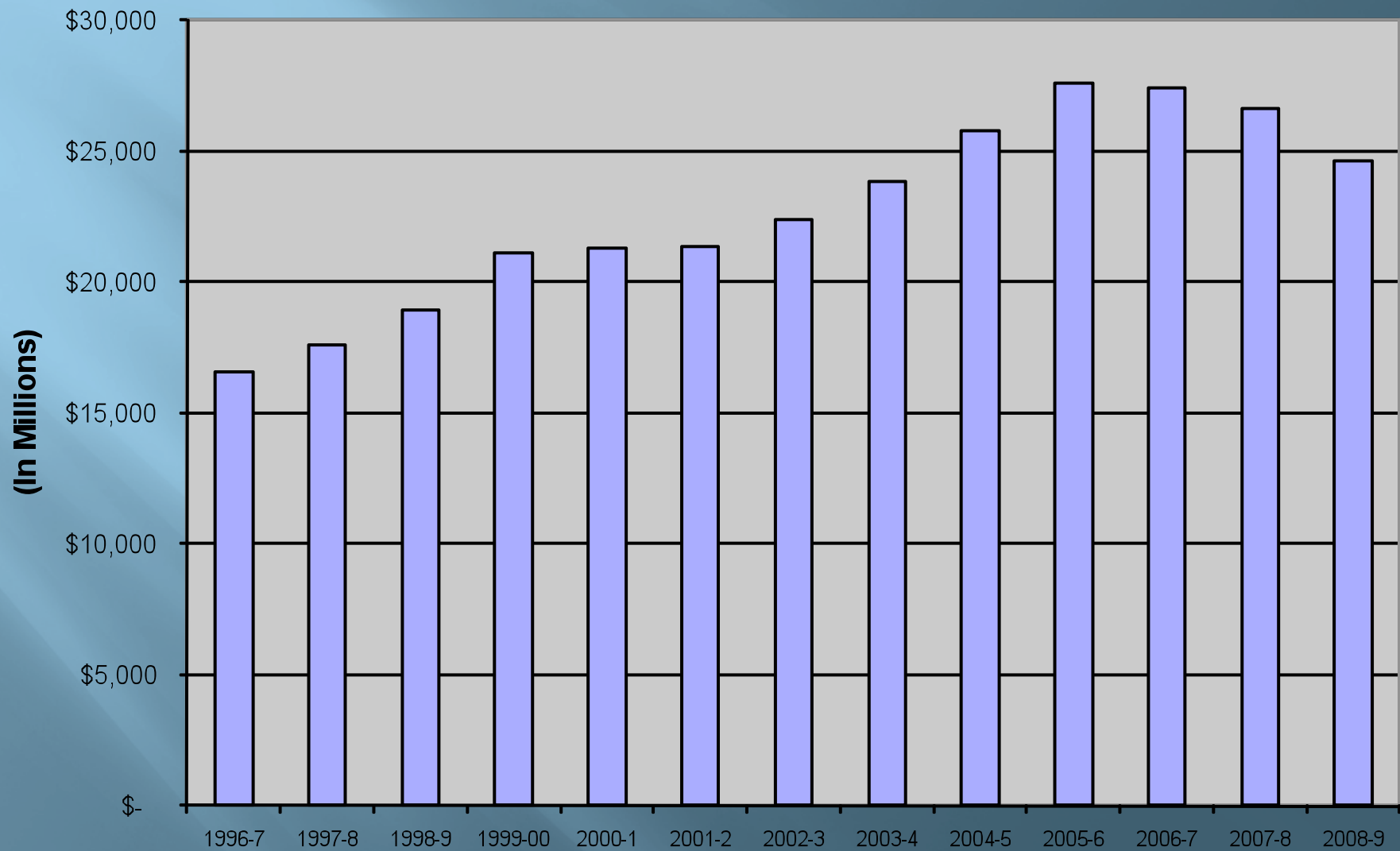
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% Change in California State Personal Income Tax Revenue from Previous Year



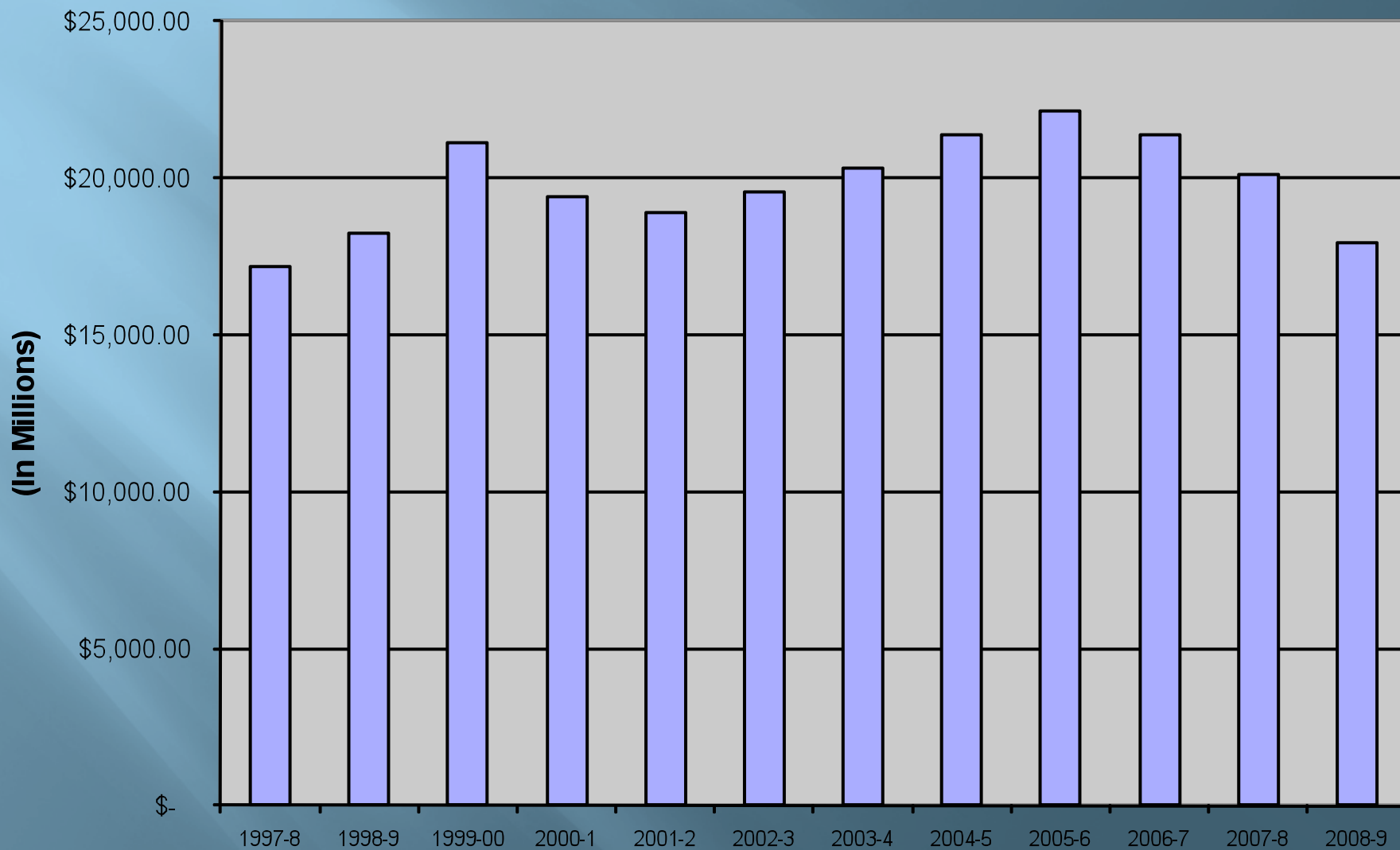
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California State Sales Tax Revenues (in millions)

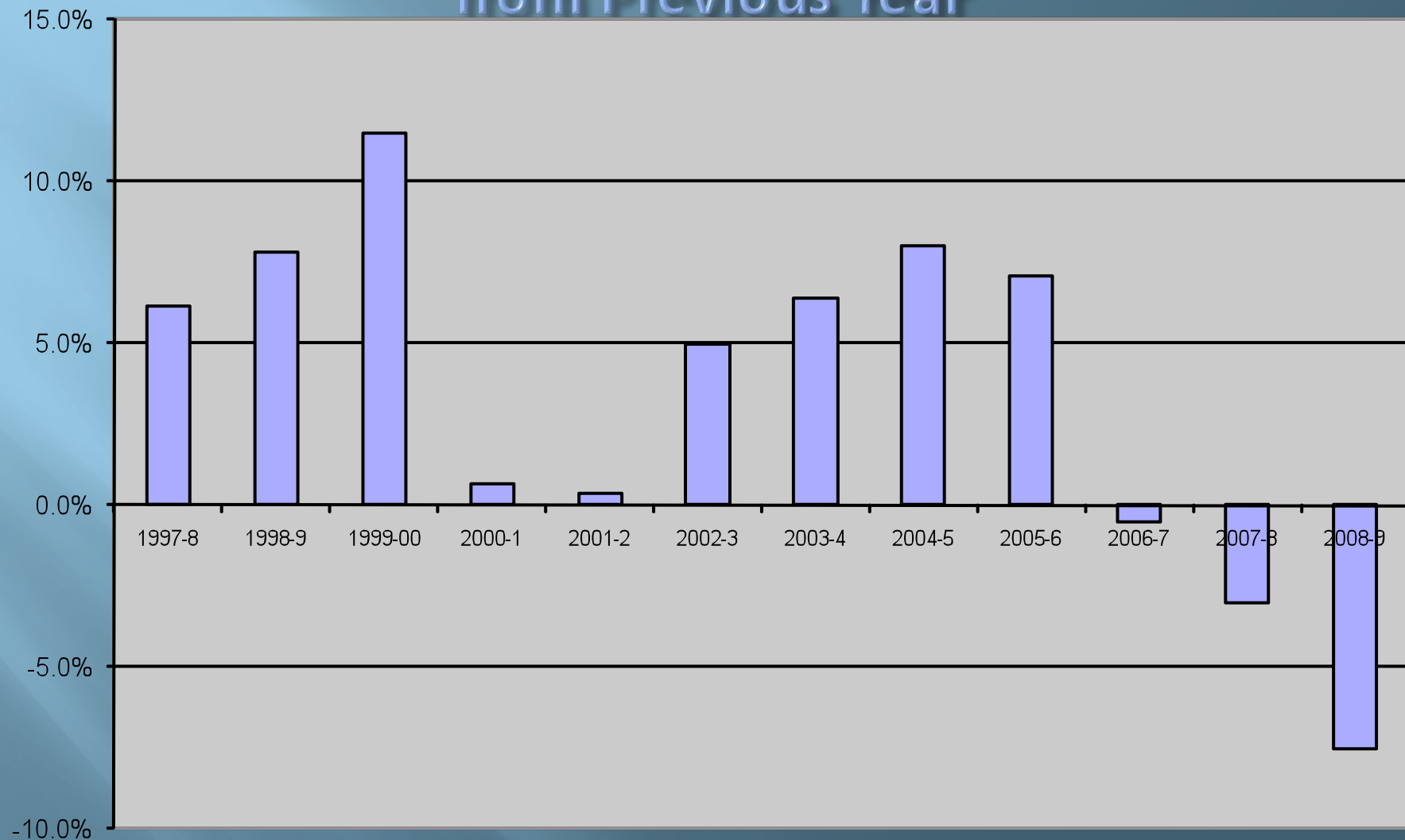


Prepared by Piper Jaffray

California State Sales Tax Revenues Adjusted for Inflation to 1996 Levels (in millions)



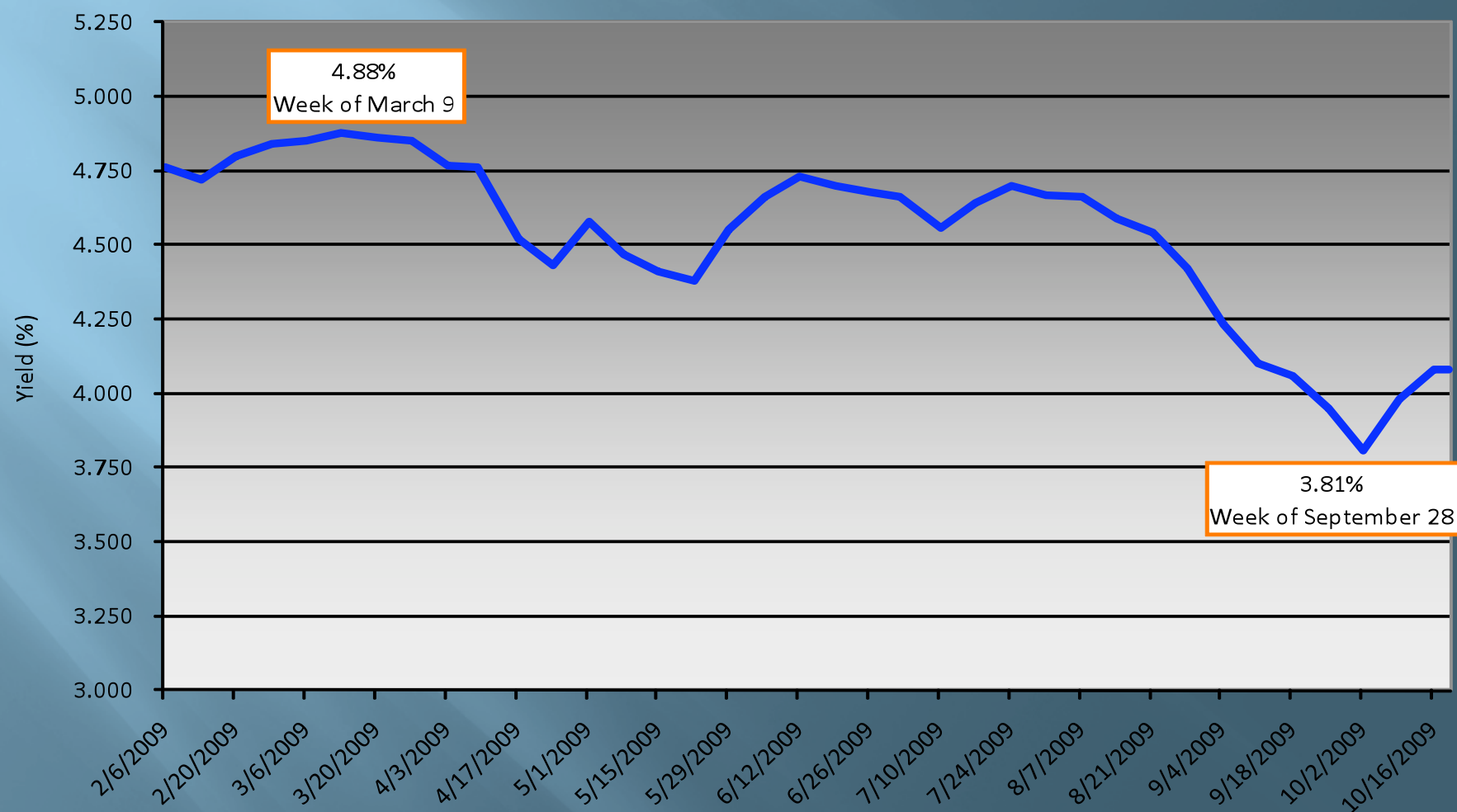
State of California % Change Sales Tax Revenues from Previous Year



California Municipal Finance

- Huge Capital inflows have reduced yields
- Build America Bonds have reduced tax-exempt volume, further reducing yields
- After a huge rally in September, the market has retrenched but is still strong

30 Year AAA MMD Yield February 2009 - Present



Bond Finance Outlook for 2009

- Expectation is moderate volatility within a tight trading range
- No major rate increases until 2010
- Short term will continue very low due to market uncertainty

Outlook

- The California reaction to strategic defaults will decide the length and depth of our recession.

For Further Information:

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Sources

- State of California, Department of Finance & Board of Equalization
- California Center for Economic Research and Forecasting
- Dataquick
- Southern California State Assessors Offices
- Moral and Social Constraints to Strategic Default on Mortgages; June 2009
 - ❖ **Luigi Guiso** European University Institute, EIEF, & CEPR
 - ❖ **Paola Sapienza** Northwestern University, NBER, & CEPR
 - ❖ **Luigi Zingales** University of Chicago, NBER, & CEPR,
- Bureau of Economic Analysis
- California Research Bureau